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James Farley



ON
PAPER MONEY, BANKING,
AND
OVERTRADING.

PRINTED BY CHARLES WOOD AND SON,
Poppin's Court, Fleet Street.

OBSERVATIONS
ON
PAPER MONEY, BANKING,
AND
OVERTRADING;

Including
THOSE PARTS OF THE EVIDENCE TAKEN BEFORE THE
COMMITTEE OF THE HOUSE OF COMMONS,
WHICH EXPLAIN
THE SCOTCH SYSTEM OF BANKING.

BY
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(*ie. Congleton, Henry Brooke Parnell, 1st Baron*)

SECOND EDITION.

LONDON:
JAMES RIDGWAY, PICCADILLY.

MDCCCXXIX.

204459
11.7.26.

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ON

PAPER MONEY,

&c, &c.

SECTION I.

State of the Currency Question.

It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital, which a dealer is obliged to keep by him unemployed, and in ready money for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work with, and into provisions and subsistence to work for; into stock which produces something both to himself and to his country. The gold and silver money, which circulates in any country, and by means of which the produce of its land and labour is annually

circulated and distributed to the poorer consumers, in the same manner as the ready money of the dealer, is all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper in the room of a great part of this gold and silver, enables the country to convert a great part of this dead stock into active and productive stock, into stock which produces something to the country.

This is the language used by Doctor Adam Smith, in showing, that the advantages a country may derive, from substituting paper money for gold and silver money, under the management of a judicious system of banking, are in the proportion in which the quantity of paper exceeds the quantity of gold and silver*; and it has been selected as an introduction of the following inquiry into the present state of paper money and of banking in England, because it may serve in some degree to dispel that prejudice against the use of paper money, which seems at present to prevail; and at the same time to justify the attempt to maintain the policy of giving every facility for employing it. Notwithstanding the length of time that has elapsed since the publication of the *Wealth*

* *Wealth of Nations*, vol. i, p. 483.

of Nations, there is not perhaps any work in which all the leading principles, which relate to paper money and banking, are more fully and clearly stated than in the chapter of Adam Smith's work from which this passage has been taken, and it is, therefore, particularly deserving of being read with great attention, by every one who wishes fully to understand the subject.

Although the Bank of England was established in the year 1694*, the amount of its notes formed but a small part of the circulation; but few country banks were established; and paper money seems to have had no considerable influence in promoting the speculations of trade until the close of the American war, a period when the commerce of the country began to make great progress.

At the close of the year 1782, and during the year 1783, the foreign exchanges were considerably below par, and the drain of bullion from the Bank of England for exportation was so great, that the cash remaining in the Bank was lower at one period, in 1783, than it was afterwards at the period of suspending cash payments in 1797. The Directors of the Bank, in their evidence before the Lords' Committee of Secrecy in 1797, endeavoured to account for the drain by saying, that it proceeded from the great ex-

* 5 Will. & Mar., cap. xx, sect. 19.

tension of commerce, which followed the peace with America, and which occasioned so considerable an export of commodities, that the circulation was hardly sufficient to keep pace with it*. But a moment's reflection will show, that the export of goods could never have had any influence in producing the drain; but that, on the contrary, it must have contributed to improve the exchanges, and to check the drain. The true reason is to be found in the great increase in the issues of paper by the Bank, which took place early in 1782. In the month of March of that year the amount of its notes in circulation was 9,160,479*l.*†; in 1780 it had been 8,400,000*l.*, and in 1779 only 6,000,000*l.*‡

From 1783 paper money rapidly supplanted the gold and silver money. The issues of paper, in the years immediately preceding 1793, were very great, and did a vast deal of injury, by encouraging the spirit of over-trading which then prevailed, and contributed very much to aggravate the commercial distress of that year.

In the years subsequent to 1797, until 1820, the circulation consisted wholly of paper money,

* Evidence of Mr. Bosanquet, page 20, Lords' Report, 1797.

† Tooke on Currency, Appendix, No. 5.

‡ Evidence of Mr. Samuel Thornton, Lords' Report on Currency, 1819, page 75.

in consequence of cash payments being suspended. The history of the progress of paper money from 1797 displays a succession of misfortunes, which have afflicted the country. ✓ But it is well deserving of consideration, whether these misfortunes ought not rather to be attributed to the defective system of banking, that is to say, to the system which regulates by law the means by which paper is issued, than to any inherent mischief in paper money, which is merely a substitution of a cheap medium of exchange in place of an expensive one. One circumstance is quite manifest; namely, this, that the principles laid down by Adam Smith have never been adopted, either by the managers of the banks or by Ministers, as the rule of their conduct; and therefore there exists a strong presumption, that paper money might have been employed without any of those misfortunes occurring, had it been managed in a different way.

In regard to the difficulties of the Bank of England in 1797, the warmest advocates of Mr. Pitt cannot maintain, that his conduct displayed any acquaintance with sound principles. But although it is not at present necessary to inquire, whether or not the order in council of that year for suspending cash payments could have been avoided, it is worthy of being mentioned,

that reasons exist (arising out of the facts of that case, and the opinions of persons of high reputation for their knowledge of commercial affairs) for saying, that the whole of the difficulties were produced by the great issues of paper made by the Bank in the preceding years*, and for supposing, that if the Bank, when the distress first appeared, had increased its paper, in place of diminishing it, commercial credit might have been assisted, and the run for guineas on the Bank diminished.

But with respect to the next measure of Mr. Pitt's concerning the currency, it is scarcely possible that there can now exist a second opinion in regard to its being a direct violation of every sound principle of finance and trade. This measure was the Act of Parliament, which passed in November 1797, for continuing the suspension of cash payments during the then existing war.

On the 26th of October the Directors of the Bank communicated to Government a resolution they had agreed to, as follows:—

“ At a Court of Directors at the Bank, on Thursday, the 26th of October 1797 :—

“ RESOLVED—That it is the opinion of this Court, that the Governor and Company of the

* Amount of Bank of England notes in circulation, in February 1794, 10,963,380*l.*; in February 1795, 13,539,160*l.*
—Mushet on Currency, p. 11.

Bank of England are enabled to issue specie, in any manner that may be deemed necessary for the accommodation of the public; and the Court have no hesitation to declare, that the affairs of the Bank are in such a state that it can with safety resume its accustomed functions, if the political circumstances of the country do not render it inexpedient: but the Directors, deeming it foreign to their province to judge of these points, wish to submit it to the wisdom of Parliament, whether, as it has been once judged proper to lay a restriction on the payments of the Bank in cash, it may or may not be prudent to continue the same *."

But notwithstanding this open declaration, that the grounds were removed on which the security of a metallic standard had been superseded, Mr. Pitt thought proper, in defiance of the risk, proved by the experience of all countries to be necessarily attendant upon allowing paper money to be issued, not convertible into metallic money, to continue such a paper money during the war.

This measure forms so important a part of the general subject, that it is interesting to observe what opinion was formed of it at the time in which it took place. A speech of Mr. Tierney's

* Hansard's Parliamentary History, vol. xxxiii, 1027.

gives a very true and forcible description of the true character of this measure, of which the following is an extract:—

“ November 22, 1797 : on the order of the day for going into a Committee on the Bank Restriction Continuance Bill, Mr. Tierney, after showing that none of the causes were then in existence on which the restriction had been adopted, said, ‘ So that there was not one operative cause for the order in council, which had not given way to circumstances of a directly opposite nature ; and yet, with all these opposite reasons, ministers called for the same measures : ’—‘ on these grounds he could not agree to a renewal of the restriction : for if ministers were allowed to bring through the House the same measure, on grounds so totally different, what was it but to say, that whether the course of exchange be unfavourable or favourable—whether gold goes rapidly out of the country, or gold comes rapidly into the country—whether there be a drain on the Bank, or a vast influx of bullion into it, the House must sanction the Bank in the proposed measure, and justify them in saying to the public, We, the Bank of England, owe you money, and now we have money in abundance, but will not pay you *.’ ”

* Hansard's Parliamentary History, vol. xxxiii, 1031.

Had Mr. Pitt duly considered the undeviating tendency of paper money, when not convertible into gold, to become excessive in quantity, and to produce, by the consequent depreciation of its value, a proportional depreciation in the value of every description of property, he would have paused before he had recourse to it. For no calamity, that could befall the country from the vicissitudes of war, short of the actual conquest of it, could be more calculated to expose it to immediate embarrassment, and ultimate ruin and bankruptcy, than letting the banks loose upon the public to issue whatever quantity of paper they pleased. But it would appear, that Mr. Pitt, having once introduced a paper standard as a substitute for a metallic one, and having experienced, for a few months, the accommodation which it afforded for carrying on the war, sacrificed to this object all other considerations. It may now, however, be affirmed, on the evidence of facts, that by thus establishing an inconvertible paper money, he took away from under the great financial, commercial, and agricultural interests of the country, the basis on which their stability rested, and exposed them to those violent fluctuations, and to those enormous losses, which have taken place in the last thirty years.

The next remarkable occurrence connected with the currency is the depreciation of the

paper of the Bank of England. The pamphlets of Mr. Boyd, Mr. Henry Thornton, and Lord King, which were published in 1802 and 1803, first called the public attention to it. These proved, that the Bank of England had issued a greater quantity of paper than was wanting; that, accordingly, it had become depreciated in its value; and, moreover, that this depreciation had produced a fall in the foreign exchanges, and a rise in the market price of bullion over the mint price, corresponding with the depreciation.

But neither his Majesty's Ministers nor the Bank Directors were willing to allow the truth of the arguments, and the soundness of the conclusions of these writers; and the Bank proceeded, without any interposition on the part of Government, still further to increase its issues.

A pamphlet, published in 1804, on the state of the Irish currency and exchange, illustrated, by several new facts and additional arguments, the principle, that a depressed foreign exchange, and a market price of bullion exceeding the mint price, were the necessary consequences of an excessive issue of paper*.

The Select Committee of the House of Commons, that was appointed in 1804 to inquire

* Principles of Currency and Exchange, by the author of this tract.

into the state of the Irish currency and exchange, adopted in their Report, after a lengthened inquiry, the same view of the subject. But the opinion of the Committee produced no effect on the Bank Directors; they went on increasing the issues of their paper to such an extent, that in the year 1810 the price of bullion rose to 4*l.* 10*s.* per ounce; and one hundred pounds in Bank notes became worth only 86*l.* 10*s.* 6*d.* in gold. ✓

The Select Committee of the House of Commons of this year, called the Bullion Committee, confirmed in their Report the doctrines and conclusions of the Report of the Committee of 1804, ✓ by bringing forward an additional number of facts, all serving to establish the conclusion, that so great a fall in the exchanges, and so great a rise in the price of bullion as then existed, could only be accounted for by an excess in the quantity of Bank paper.

This Report, though full of sound and unanswerable arguments, led to no other result at the time than the ever-memorable resolution of the House of Commons —

“That it is the opinion of the Committee, that the promissory notes of the said Company have hitherto been, and are at this time, held in public estimation to be equivalent to the legal coin of the realm, and generally accepted as

such in all pecuniary transactions to which coin is lawfully applicable *."

His Majesty's Ministers obstinately adopted the doctrine of this resolution, as the basis of all their measures respecting the currency for several years ; and it was not until the House of Commons, in the session of 1818, manifested some strong symptoms of disapprobation of the system of continued renewals, that they showed any disposition to depart from their ruinous course of endeavouring to protect the Bank of England, and to preserve for themselves the facilities that an inconvertible paper money afforded in managing the public finances.

In 1819 Ministers consented to the appointing of Committees of both Houses of Parliament, to take the subject of the currency into consideration ; and in that year an Act was passed for providing for the gradual resumption of cash payments, so that all notes should become convertible into gold in the year 1821.

Although the result of this measure has been the restoration of cash payments, the recent state of the banking trade shows, that the authors of it committed a great fault in confining their attention wholly to this single object ; for if effectual mea-

* Commons' Journals, May 1811.

asures had been then adopted for placing the trade of banking on a sound footing, as unquestionably they ought to have been, after the system of banking had so completely failed in 1793, 1797, and (as will be hereafter shown) in 1815, there is little reason to doubt, that paper money might have been continued in general use, from 1819 to the present time, of a value equal to that of coin, and with perfect security to the public.

In 1819 two important duties, respecting the currency, devolved upon Ministers; one of them to restore the value of it to its ancient standard value, the other to reform the system of banking*. But Ministers, evidently from having no fixed or correct notions about the principles of banking, and from not being at all aware of the defects of the system, wholly neglected to take any steps for reforming it, and confined their efforts to the making of Bank paper convertible into coin.

Ministers are, however, entitled to great praise for having established cash payments, and for having so steadily persevered in resisting the

* On the debate upon the Cash Suspension Bill, in 1819, the author of these pages recommended this reform. He said, "Had the banking concerns of this country been carried on upon the same principles of competition as prevailed in Scotland, the embarrassments of the present period would not have existed. He trusted that measures would be taken for putting an end to the Bank monopoly."—Hansard's Parliamentary Debates, vol. xl, p. 760.

attempts since made to repeal the act of 1819; but the benefit they conferred on the country would have been still greater, had the complete reformation of the banking system been undertaken by them, as a part of the measure for restoring the metallic basis of the currency.

The next important event connected with the currency is the commercial convulsion which took place at the end of 1825. This has produced the publication of various opinions respecting the causes of it, and also respecting remedies for preventing the recurrence of a similar disaster. But although the authors of them are persons who possess considerable claims upon the public for the ability they have displayed, on frequent occasions, in discussing questions of this kind, the view they have taken of the causes of over-trading, and the remedies they have proposed for the defects of the banking system is such, as to admit of strong doubts of its being right. As the examination of their opinions forms a considerable part of the following pages, a summary enumeration of them will now be given, in order to render the inquiry clear, and at the same time free from too frequent reference and repetition.

Lord Liverpool and Mr. Robinson, in their letter of the 13th of January, 1826, to the Directors of the Bank of England, say, "the principal source

of the recent distress is to be found in the rash spirit of speculation, supported, fostered, and encouraged by the country banks." They describe the English system of banking (alluding to the country banks) as "an unsolid and delusive system;" and they propose, in order "to prevent the recurrence in future of such evils" (as then existed), 1. That the issuing of one and two pound notes should be prohibited; 2. That the Bank of England should establish branch banks in the interior of the country; 3. That the Bank of England should give up its exclusive privileges, as to the number of partners engaged in banking, except within a certain distance from the metropolis.

Mr. Tooke, in his work on "The State of the Currency", says, that the Bank of England, "precisely at that time (1824) when there ought to have been a contraction," increased its issues three millions; that "this increased issue gave a fresh and powerful stimulant to the spirit of speculation, and assisted in converting an incipient delusion into absolute insanity." Mr. Tooke further says, that the country banks increased their issues, between 1822 and 1825, seven millions, and that "the enlargement of the circulating medium was sufficiently considerable in point of amount, and coincident in point of time, to account for the rise of prices in the last three years*."

* Pages 66, 48, 32, Second Edition.

Mr. Tooke proposes as remedies for the evils, which, in his opinion, “are inseparable from the present system,” 1. That at the expiration of the present charter of the Bank of England, the whole system, as connected with the circulation of promissory notes, should be entirely remodelled *; and, 2. That “notes under 5*l.* should not be any longer tolerated †”.

Mr. Mushet says, in his tract on the Currency, that the whole embarrassment, now existing in the commercial and money market, may be attributed to the increase of our paper money: “that in the state of the currency alone shall we find the true explanation of the state of public madness for speculation;” and he further says, that it is to the increased issues of the Bank of England, in 1824, that he is disposed to attribute the whole of the distress ‡.

Mr. Mushet proposes, as remedies of the evil, 1. That the Bank of England should be deprived of the power of lending to Government on exchequer bills, on mortgages, or on stock; 2. That no notes shall be issued under the value of 20*l.*; 3. That the trade in coined money shall be perfectly free; and that the Mint shall possess a fund to enable it, immediately upon the quantity of bullion brought into it being ascertained, by assay, to give coined money in exchange for it §;

* Page 123.

† Page 126.

‡ Pages 5 and 152.

§ Page 107.

4. That an addition should be made to the silver currency ; 5. That the banking system should be thrown open to a distance exceeding sixty-five miles from London.

The writer of the article in the 86th Number of the *Edinburgh Review**, on the Banking System of England, blames the Directors of the Bank of England, for having extended the issues of their paper by reducing the rate of interest on their discounts to 4 per cent. ; by increasing their purchases of exchequer bills ; and by lending 1,400,000*l.* on mortgages of landed property. He says, “ they fell into a double error, first in attempting to force the issue of their notes at the very period when they ought to have foreseen, that the increased issues of the country banks, consequent upon the renewed prosperity of the country, would have themselves rendered the currency redundant, and occasioned a drain of bullion ; and secondly, in refusing to reduce, or indeed in actually increasing, the number of their own notes in circulation for upwards of a twelve-month after the drain for bullion had begun to operate on their coffers †.”

The author of this article, and other publications on the late commercial revulsion, proposes the following measures for establishing a sound

* Mr. M'Culloch.

† *Edinburgh Review*, vol. xliii, p. 275.

✓ system of currency ; 1. The removal of the restriction by which more than six individuals are prevented from joining in a company for the issue of notes ; 2. The obliging of every banking company to deposit in the hands of Government as much stock as shall be equal to the whole, or at the very least three-fourths of the amount of the notes for which it shall obtain stamps ; 3. The making of the notes of the country banks payable in Bank of England notes ; 4. The allowing of the notes of the Bank of England to be payable in bars of gold*.

Mr. Henry Drummond says, in his pamphlet on the Currency, “ the late distresses originated in an excessive issue of paper, and in a consequent contraction of that paper : ” that “ overtrading was the necessary consequence of an inundation of depreciated paper : ” that “ no one can have paid any attention to the nature of currency, without being assured, that the Bank of England possesses a formidable power over the properties of its fellow subjects, which has been and can be productive of the most ruinous effects, without the possibility of conferring one redeeming benefit†.”

Mr. Alexander Baring said, in his speech in the House of Commons on the 10th of February,

* Scotsman Newspaper, March 4, 1826.

† Pages 64 and 65.

1826, that the issues of the Bank of England were the main cause of the existing evils ; and proposed as a remedy, that the Bank should be relieved from, what he termed, the choke produced by their making advances to Government.

No fault is to be found with the opinion of Lord Liverpool and Mr. Robinson, as far as it goes : it is quite correct to say, that a spirit of over-trading was the cause of the evil ; and that the evil was supported, fostered, and encouraged, by the country banks ; but they ought to have gone on to say, that the country banks were themselves encouraged to support over-trading, by the previous conduct of the Bank of England in increasing its issues, in the way described by Mr. Tooke, Mr. Mushet, and Mr. M'Culloch.

Lord Liverpool and Mr. Robinson, in calling the system of banking an unsolid and delusive system, also say what is quite correct ; but they ought to have proceeded to say, that the reason which rendered it unsolid and delusive was the law which created the immense capital and power of the Bank of England, and protected it from rivalry, by the restriction, by which no more than six persons could join in a banking company for issuing bank notes.

In regard to the remedies proposed by Mr. Tooke, Mr. Mushet, and Mr. M'Culloch, they are open to this objection, namely, that

they are not the remedies which the facts they have stated, in respect to the ignorance and misconduct of the Bank Directors, obviously suggest; for, after having proved how much injury the Bank has done to the public interest, the right conclusion for them to have drawn was, that the Bank ought not to be allowed to possess any longer an uncontrolled power over the circulation.

✓ It is in consequence of all the facts connected with the paper currency concurring to prove the ruinous influence which the Bank of England has exercised over it, and of no author having pointed this out, that these pages have been written. In them an attempt is made to explain, in a more detailed manner than has hitherto been done, what were the causes of the late distress; and to point out what are the proper measures for preventing the recurrence of similar distress. As to the causes, it will be shown—

1. That the late distress originated in a state of very prosperous trade.
2. That this prosperous trade was converted into a state of over-trading, by the miscalculations of merchants and manufacturers.
3. That over-trading was greatly extended by improper issues of paper.
4. That the greater part of the embarrassment

was owing, neither to over-trading, nor to the issue of paper, but to the system of banking, arising out of the law for regulating it.

As to preventing the recurrence of similar distress, and the reforming of this system, it will be shown that it is necessary —

1. That merchants, manufacturers, and bankers should make themselves better acquainted with that part of the science of trade, which relates to prices.

2. That the banking system should be wholly changed; first, by diminishing the capital of the Bank of England, so as to admit of new banks entering into competition with it; secondly, by allowing joint stock companies to be established in London, with the power of opening branch banks in the country, so that the capital of the metropolis may be brought into operation in supporting the country circulation; and thirdly, by requiring that every bank should give security.

His Majesty's Ministers, acting upon the opinions contained in the letter of Lord Liverpool and Mr. Robinson to the Bank Directors, carried through Parliament, in the last session, one act for suppressing notes under the value of 5*l.* after the month of April, 1829; and another act for enabling the Bank of England to establish branch banks; and also for removing the restriction, by which more than six individuals

were prevented from joining in a company for issuing bank notes, in any place sixty-five miles distant from London.

In regard to these measures it will, for the present, be sufficient to make only a few observations, as their merits will be more fully discussed in examining the principles in detail, which belong to the general question.

As to the measure for the suppressing of small notes, no objection ought to be made to it so long as a very injudicious system of banking exists, because the restriction contributes to diminish the means the system affords of doing harm ; this is the only reason on which it can be justified ; and by no means that of metallic money being preferable to paper money ; for if the system of banking were properly reformed, then small notes ought to be allowed, as forming an essential part of a perfect system of paper currency.

That the measure of last session for abolishing small notes cannot protect the public from the abuses of banking is very obvious ; because, after they shall cease to circulate, the currency will be exactly in the same state, as to the lowest sum for which a bank note may be issued, as it was in 1793 and 1797 ; in which years the country was involved in as great commercial and banking confusion as it has of late been.

In respect to the measure for allowing an un-

limited number of partners to form companies for issuing bank notes, at a distance of sixty-five miles from London, it is founded upon the best principles ; but it is not adequate to bring about that degree of change in the system of country banks which is wanting. These banks have a strong hold over the country circulation; and there is no prospect that the country can supply the description of persons or the quantity of capital which are requisite to take it out of their hands. Until joint stock companies are formed in London, possessed of the power of establishing branch banks, and free from the overwhelming control of a National Bank, sufficient capital will not be forthcoming to supplant the weak banks which at present exist, and to prevent the establishing of new ones still weaker, the moment that trade shall take a favourable turn.

As to the Bank of England ever opening such a number of branch banks as would be sufficient to supply the country with paper, and thus to protect the public from the paper of weak banks, it is idle to expect it, while it can secure a dividend of eight per cent. by its London business. Although every branch bank which it establishes will do good, so long as a single weak bank remains, or the facility of opening new weak banks, the public will not have protection from the abuses of paper money.

These few remarks are sufficient to show, that Ministers have actually done nothing as yet, that can be considered effectual towards establishing a judicious system of banking. ✓ The error they have fallen into is, that they have hitherto confined their exertions to a feeble attempt to reform the country banks alone, without appearing to comprehend the greater evil to be remedied in the institution of the Bank of England.

SECTION II.

On Country Banks.

THE system of supplying the interior of the country with paper, issued by country banks, was not generally established till after the American war. Mr. Chalmers, in his estimate of the strength of Great Britain, after stating that the seven years preceding 1793 were seven years of the greatest prosperity, both public and private, which the nation had ever enjoyed, proceeds to give the following account of the state of the country banks in that year. He says, "In the midst of this prosperity a bank was erected in every market town; I was going to say in every village. The vast business of the country created these banks; and these banks created, by their facilities, vast business."—"The country bankers tried various projects to force a greater number of their notes into circulation than the business of the nation demanded. They destroyed, by their own imprudence, the credit of their own notes, which must ever depend on the near proportion of the demand to the supply."—"The projects and arts, by which these notes were

pushed into the circle of trade, were regarded with a very evil eye by those, who, in this management, saw great imprudence in many, and a little fraudulence in some. When suspicion stalked out to create alarm, and alarm ran about to excite panic, more than four hundred country banks sustained a shock ; all were shaken ; upwards of *a hundred* stopt ; some of which, however, afterwards went on, in their usual course of punctual payments." — "The whole number of country banks in England was unknown ; their capitals and characters were unknown ; their imprudence only was known, which had already shaken their own credit *."

Mr. Macpherson, in his *Annals of Commerce*, speaking of the commercial convulsion of 1793, says, "Amidst the general calamity, the country banks, which were multiplied greatly beyond the demand of the country for circulating paper currency, and whose eagerness to push their notes into circulation had laid the foundation of their own misfortunes, were amongst the greatest sufferers, and consequently the greatest spreaders of distress and ruin among those connected with them †."

The Report of the Committee of the House of Commons, that was appointed to inquire into

* Page 296.

† *Annals of Commerce*, vol. iv, p. 266.

the commercial distress of 1793, contains a paper in which it is stated, that the failures which had taken place had begun by a run on those houses which had issued circulating paper without being possessed of sufficient capital.

The total number of bankruptcies in 1793 was one thousand nine hundred and fifty-six. The number of country bankers comprised in this number was twenty-six* ; but the actual number that stopt payment was one hundred. There were twelve that failed in Yorkshire, seven in Northumberland, seven in Lincolnshire, six in Sussex, five in Lancashire, four in Northamptonshire, and the remainder in other counties†.

In the sixteen years, from 1793 to 1810, eighty-seven commissions of bankruptcy were issued against country banks. In 1810, twenty-six commissions were issued, and between 1810 and 1814, twenty-nine commissions.

In the years preceding 1813 and 1814 the country banks pursued a course of conduct precisely similar to that which terminated so perniciously in 1793. The following extract of the evidence of Mr. Wakefield, given before the Agricultural Committee of the House of Com-

* Tooke on Prices, Appendix to part i, No. vii, Second Edition.

† Annals of Commerce, vol. iv, p. 266.

mons in 1821, explains how imprudent and culpable that conduct was.

Question. "When was the period of the greatest facility of that sort of accommodation which you have alluded to?"

Answer. "Up to the year 1813 there were banks in almost all parts of England, forcing their paper into circulation at an enormous expense to themselves; and, in most instances, it had been done to their own ruin. There were bankers who gave commission, and they sent persons to the markets to take up notes of other bankers; and these people were called money changers: and commission was paid for doing it in this way. In every instance in which I have traced such commission transactions, I have found that failure has certainly ensued*."

In the years 1814, 1815, and 1816, the number of commissions of bankruptcy that were issued was six thousand six hundred and twenty-seven, of which ninety-two were commissions against country banks†.

Between the years 1816 and 1825, the number of commissions of bankruptcy that were issued against country bankers was sixty-two. In 1824

* Report of Committee on Distressed State of Agriculture, 1821, p. 213.

† Tooke on Prices, Appendix, part i, No. vii.

and 1825 the country banks again abused the power of issuing paper money, in a most unwarrantable manner; and seem to have acted with no other view than that of forcing into circulation the greatest possible quantity of it, without any regard to the means they possessed for repaying it. Mr. Tooke says, "According to the proportions here given (in the account of the stamp office) of the number of notes stamped, and assuming the common calculation, that the total amount in 1822 was about twelve millions, to be correct, the amount in 1825 would be between eighteen and nineteen millions, making an increase in the interval of between six and seven millions*.

That this increase was uncalled for and quite unjustifiable, with reference to the capital of the banks, is proved by the result; for the moment a change took place in the late prosperous course of trade, and that a pressure began on the banks for fulfilling their engagements, they were quite incapable, many of them, to pay any thing, and no less than fifty-nine commissions of bankruptcy was issued against country banks between October, 1825, and February, 1826†.

But this was not all, for it is well known, that the actual number of commissions taken out

* On Currency, p. 40.

† Sessional Papers, 1826, No. 94.

against the banks does not show the extent of the failures; but that to these should be added the private compositions, which are commonly estimated to be to the number of commissions in the proportion of four to one*.

According to this proportion, the loss which the country has sustained since 1792, by the country banks not making good their engagements, has been quite enormous. The total number of commissions issued since that year against country banks being no less than two hundred and ninety-four.

Although this statement carries with it strong evidence of the injurious consequences which may arise from the substitution of paper money for metallic money; if all the facts connected with the country banks are duly examined, in order to discover what portion of the evil should be set down to paper money, and what portion to the system of banking in England, it will be found, that they do not establish any conclusion unfavourable to the principle of the utility of paper money, or prove that the proper remedy of the evil is to diminish the proportion which paper money bears to metallic money in the circulation. The real evil is, not paper money, but the system of banking which has the management of it.

* Tooke on Prices, p. 105.

In each of the principal instances of great commercial distress already referred to, namely, in 1793, 1816, and 1825, the difficulties arising from an excess of speculation and overtrading would have been of a very different kind under a better system of banking; for it is quite evident, from the circumstances attending the distress on each of these occasions, that what aggravated these difficulties, and created the intensity of the distress, was the banks not being possessed of sufficient capital, and their suddenly failing in great numbers, just when the embarrassments of trade began.

It is worthy of observation, that in 1793, when perhaps the country banks did more injury than at any other time, no notes under five pounds were allowed to be issued; and there was between twenty and thirty millions of gold in circulation. This circumstance is sufficient to show, that paper money has much less influence in producing commercial distress than it is commonly supposed to have.

Mr. Chalmers mentions, that in 1793 Scotland did not partake of the embarrassments experienced in England*. This can only be accounted for by the superior system of banking in Scot-

* Page 303.

land ; for at that time Scotland had carried her trading speculations full as far as England had carried hers ; and there was no coin whatever in her circulation. If then, in the years 1793, 1816, and 1825, as good a system of banking had existed in England, although a great excess of paper might have been issued, and although overtrading might have been carried on to a great extent, it is perfectly correct to infer, that no bank would have failed, and that the distress in those years would have consequently been comparatively light to what it was.

The inferior banking system of England has been altogether created by the very impolitic regulations of the English law. In the first place, by increasing the capital of the Bank of England from 1,200,000*l.*, its original amount, to 14,686,806*l.*, its present amount, and thus investing the Bank Directors with the power of greatly increasing or suddenly contracting the currency, as they may think proper ; and, in the second place, by imposing a restriction, by which no more than six persons can form a banking company for the issuing of bank notes.

In respect to the power of the Bank of England to increase its issues as it pleases, and the effect of it upon the issues of the country banks, every one, who has paid any

attention to the way in which the general circulation is regulated, will be disposed to allow, that the conduct of the Bank of England, in regard to its issues, must necessarily have great influence in regulating those of the country banks.

Mr. Henry Thornton, in his work on Public Credit, says, "the limitation of the supply of London paper is the means both of sustaining the value of London paper, and also of sustaining the value and limiting the quantity of the whole country paper *." Mr. Mushet says, "It is generally admitted, that the extension of the circulation of the country banks was entirely dependent upon an extension of the issues of the Bank of England:" "I think," he adds, "no increase or excess of the country circulation can ever be produced but by a previous extension of the issues of the Bank of England †."

The correctness of these opinions is fully established by the state of the issues of the Bank of England in the years previous to 1793, 1816, and 1825, which have been referred to as the years in which the issue of the country banks was the most in excess, and the most ruinous.

On the 25th of February, 1790, the amount of Bank of England notes in circulation was

* Page 220.

† Pages 27, 28.

10,217,360*l.*; but on the 25th of February 1792, it was increased to 11,349,810*l.**; being an increase of 1,132,450*l.*, and equal to eleven per cent., which must have contributed essentially to the great increase of country paper in that year.

In regard to the case of 1816, it appears, that the average amount of Bank of England notes in circulation, in 1812, was 23,237,000*l.*; that this was increased, in 1813, to 24,023,000*l.*, and in 1814 to 26,901,000*l.*†; the increase from 1812 to 1815 being 3,664,000*l.*

Such an increase must have contributed to encourage the country bankers to increase the issues of their paper, and may be considered, in some degree, a justification for it.

As to the case of 1825, it appears, that the amount of Bank of England notes in circulation, in April 1823, was 17,750,473*l.*, and in April 1825, 20,881,123*l.*‡, being an increase of 3,130,650*l.* This, no doubt, mainly induced the country banks to enlarge their issues.

However pernicious, therefore, the conduct of the country banks has been in forcing the circulation of their paper in the years pre-

* Mushet on Currency, p. 11.

† Tooke on Prices, p. 42.

‡ Tooke on Currency, p. 36.

ceding the commercial difficulties of 1793, 1816, and 1825, they have a just right to say, "We were induced to make these great issues, by placing confidence in the Bank of England; and by believing that the Directors of it were the best judges of the expediency of increasing the circulation. We made no addition to the ordinary amount of our issues until we saw the Directors of the Bank of England enlarging theirs. We, at all times, have been taught by his Majesty's Ministers, and by speeches in Parliament, to regard the Directors of the Bank of England as persons possessed of the greatest wisdom in the management of the circulation; and if we have erred in increasing our issues, we have done so in consequence of regulating our conduct entirely by the course which the Bank of England pursued."

In regard to the effect of the law, which has prevented more than six persons from joining in a company for issuing bank notes, it is obvious, that it has taken away, as to the Bank of England, the great check over abuses in issuing paper money, namely, the competition of rival banks; and that it has led to the establishing of weak banks in the country. If no such law had existed, according as the trade of the country increased, large joint stock capitals would have been formed for opening banks, both in London

and the country, by collecting a number of shareholders. These banks would have issued paper of substantial value; they would have checked each other; and they would have found it their interest to prevent the establishing of weak banks. But in consequence of strong banks of this description having been prohibited, the demand for bank paper, that rose up with the increase of trade, necessarily set on foot the establishing of that inferior description of banks, which has so much abused the power of issuing paper money. This regulation therefore of the law, for limiting the number of partners in a bank, should be considered as being the real cause of that ruinous system of banking, which has occasioned such great embarrassments to trade, and such an immense loss of property: so that, in place of attempting to reform it, by such expedients as abolishing small notes, and introducing a large proportion of metallic currency, or by a partial measure for establishing joint stock companies, this regulation ought to be entirely done away, as the first measure for placing paper money on a sound footing.

By the establishing of joint stock companies in London, with the power of opening branch banks, a total change would be brought about in the system and character of country

bank paper; because in this way the capital of London would be extensively employed in giving due security to the country circulation. The paper of these banks, so supported, would soon supplant the paper now in circulation, and compel the greater part of the existing country banks to discontinue their business. This is precisely what is wanting; for nothing short of accomplishing this object, of actually suppressing the greater part of the existing banks, can be an adequate remedy of the evil*.

That the banking business would have taken the course here pointed out, if it had been left free from legislative interference, is quite evident from what has taken place in Scotland; there this business has been carried on in the most successful manner, by joint stock companies, possessing great capital, and constantly acting on a principle of rivalry and competition, in preventing each other from abusing the power of issuing paper money, by forcing too much of it into circulation.

* See the section on Joint Stock Companies, for a more detailed account of the probable advantages to be derived from them, if established in London.

SECTION III.

On the Causes of the Commercial Distress of 1825.

THE time that has elapsed since the publishing of those opinions, which attribute the spirit of speculation and over-trading of 1824 and 1825 wholly to excessive issues of paper, and which have been already mentioned, has afforded an opportunity of fully examining the grounds upon which they are founded. They were naturally suggested by the facts connected with the state of the paper circulation at the end of 1825 and the beginning of 1826; namely, a great increase of paper, a great rise of prices, and the simultaneous failure of nearly one hundred country banks. But a fuller investigation of these circumstances would make it appear, that these opinions were too hastily adopted.

It is of great importance, that no error should be committed in forming a judgment respecting the causes of the distress; because it is only by arriving at a correct opinion respecting them, that a chance exists of devising means of preventing the recurrence of a similar state of things.

In respect to the disposition which appears to prevail, to condemn all speculation in trade, this evidently arises from mistaken notions of the nature of trade; because, as nothing scarcely can be produced with a certainty of the price it will bring, all trade is actually a system of never-ceasing speculation. Even a very great extent of speculation may be perfectly correct, whenever the supply of commodities falls short of the demand for them. Speculation only becomes injurious when those who embark in it do not take proper pains to ascertain the state of the demand and supply of commodities, and, in consequence, calculate on the continuance of high prices, after the causes which have made them high have ceased to exist.

In respect to the over-trading of 1824 and 1825, it may have had its origin either in high prices arising from causes wholly belonging to trade, or from an excessive issue of paper. In the following pages an attempt is made to show, that the causes were of the first kind, and not the issue of paper, which took place between 1823 and 1826.

In order to establish this conclusion, it is necessary to refer shortly to some of the acknowledged elementary principles of trade. In the first place, it is to be observed, 1. That all trade consists in supplying the demands of society for commo-

dities; 2. That the market price of commodities depends upon the proportion which their supply of them bears to the demand for them; and, 3. That the only way of making a safe speculation in trade is by first acquiring a correct knowledge of this proportion.

As trade, therefore, may be considered as wholly consisting in the transactions which arise from the demand for commodities on the one hand, and from the supplying of them on the other; it will at all times be found to be in one of the following states, according to the ratio of the supply to the demand of commodities.

1. It will be in an ordinary or natural state, when the supply and demand are nearly equal to each other; and occasion such a rate of prices for commodities, as will just repay the cost of producing them, together with the usual average rate of profit on capital employed in trade.

2. It will be in a depressed state when the supply exceeds the demand; and consequently when the prices of commodities are so low as to afford no profit to those who produce them; and in a still more depressed state when the prices will not repay the cost of production.

3. It will be in a flourishing state when the supply falls short of the demand; and when, consequently, the prices of commodities are so high as to yield a rate of profit much higher

than the usual average rate of profit on capital employed in trade.

4. It will be in a state of over-trading, when the supply, in the first instance, having fallen short of the demand, and occasioned a prosperous state of trade, the producers of commodities, after having made the supply equal the demand, in ignorance of this fact, continue to increase their productions, and add to the supply, on the erroneous calculation, that high prices will continue.

As the means of supplying commodities are continually changing, and as the demand for them is influenced by a great variety of circumstances, such as changes of habits, fashion, legislative regulations, and political events; the ratio that the one bears to the other must be for ever varying: and as the market price of commodities and the success of all speculations in trade depend upon this ratio, it is expressly the business of all persons, who are engaged in trade, to watch its movements, and make their calculations accordingly.

Although this description of the nature of trade may have the appearance of unnecessary minuteness, it is of some importance, because it is owing to the habit of omitting to keep constantly in view the state of the supply and of

the demand of commodities, that almost all the erroneous and ruinous speculations which have happened are to be attributed. And it is from a careful study of the facts, which belong to the various instances in which this principle has been lost sight of, that it may now be laid down as a general rule, that when trade is either in a very depressed state, or in a very prosperous state, every thing is contributing to produce a change, and to bring it back to its ordinary or natural state. Thus, for instance, when trade is in a depressed state, the making and importing of goods are lessened, and capital is withdrawn from being employed in these transactions; the supply of commodities is thus reduced, in a short time it ceases to exceed the demand, and prices rise. When trade, on the other hand, is in a very prosperous state, new capital is embarked in making and importing goods: and every effort is employed to render the labour of the workman as productive as possible; the supply of commodities is thus increased, in a short time it equals the demand, and prices fall.

It is when trade is in an unusually prosperous state, that the temptation to increase productions to an excess is so strong, that it is seldom suffered by merchants and manufacturers to revert quietly and gradually to an ordinary state,

without first passing into a state of over-trading. It is, therefore, just when trade is in the most prosperous state, that there exists the greatest danger of excessive speculation, and of its becoming exceedingly depressed ; and it depends wholly on the judgment and conduct of the merchants and manufacturers, whether it takes its natural course of quietly and gradually reverting to an ordinary state of price and profit ; or whether it goes forward into a state of ruinous over-trading.

If the merchants and manufacturers comprehend and act on the principle, that every state of trade is regulated by the ratio of supply to demand ; and if they take due pains to ascertain what this ratio is, and make it the basis of their calculations, they will act, when trade has been for some time very prosperous, with peculiar caution, and look forward to a fall of prices. But if, when trade has been for some time prosperous, they wholly omit to take into their consideration what has been going forward in regard to the increasing of productions ; and if they imagine, very illogically, that because prices have been and still are very high, they will be permanently high, and yield great profits, and form their speculations accordingly, they will soon glut the market, make it impracticable to effect sales, and involve themselves in the greatest distress.

The history of the trade of England for the last thirty years shows, that her merchants and manufacturers have uniformly adopted the latter course of conduct; they have on every occasion displayed a negligence of inquiry into the causes of high prices, and have acted with great imprudence in always calculating upon their continuing high, merely in consequence of their being high at the time of their making their calculations. The reason of this can only be explained by their habits of devoting their whole attention to the mere practice of trade, and neglecting to inform themselves of any of the most elementary principles of it.

All the facts belonging to the case of the distress of 1825 serve to illustrate the accuracy of this general view of the nature and causes of overtrading, and they will now be briefly enumerated.

The depressed state of trade in the years 1821 and 1822, and consequent low prices, had led to a diminished production and importation of goods, and to an advance in prices in 1823; and the very high prices of 1824 and 1825 were the result, first, of this diminished production and importation; secondly, of an improvement in the state of agricultural produce; thirdly, of the acknowledgment of the independence of the South American Republics, which opened new markets to British commerce; and lastly, of the loans

which were raised for these republics, and which were remitted in manufactured goods : all these circumstances concurred to produce an unexampled state of commercial prosperity during 1824 and the greater part of 1825.

In 1824 trade was precisely in such a state as made it the duty of all merchants and manufacturers to act with particular caution. They all knew the great efforts which had been made to increase productions ; and it would have been easy for any of them to ascertain whether any great source of demand had ceased, and what was the state of the stock on hand, and thus to acquire the means of foreseeing, that it was almost certain that the very high rate of prices could not long continue. If they had made such an inquiry in 1824 they would have found, among other causes of a change, that the great demand had ceased for goods to be exported to South America as the means of remitting loans ; but instead of taking any such trouble, the manufacturers of cotton, woollen, silk, iron, and it may be said of all other kinds of goods, went on increasing the productions of their respective trades ; while the merchants continued to increase the importation of raw materials, and other foreign goods.

As the effect of all these efforts was to make an immense addition to the supply, beyond what

was wanting, a general glut took place, and that fall of prices, which, by depriving all the owners of goods of the means of fulfilling their engagements, produced the late stagnation and distress.

As these facts prove, that the evil of over-trading arises from calculating on the continuance of high prices, at the very time when every thing is contributing to make the supply equal to the demand and to lower price, it seems to be indispensable, as one step towards preserving the country from the recurrence of this evil, that all persons engaged in trade should make it a rule to consider a very prosperous state of trade, after it has lasted for some time, as a certain indication that the period is not distant, when an altered ratio of supply to demand will lower prices, and thus render it unsafe to extend their dealings.

As to the forming of a tolerably correct opinion while trade is prosperous, in respect to the period when it may cease to be so, no person in extensive business can have any great difficulty, if he seriously makes the attempt, to learn those facts which will enable him to calculate what the existing ratio is that the supply bears to the demand for commodities. By examining price currents, and lists showing the importations of raw materials, and other goods, and the exporta-

tions of manufacturers, and by making diligent inquiries respecting stocks in hand, and respecting the measures in progress for increasing productions, persons conversant with trade will acquire abundance of facts for forming a correct conclusion in respect to the probable state of prices.

It was not for want of due admonition that many persons involved themselves in the late difficulties; because several individuals, distinguished for their knowledge of the principles of political economy, saw the evil approaching, and took pains to apprise the public of it. Every one who had an opportunity of conversing with Mr. Tooke, in the course of the spring of 1825, can well remember with what confidence he declared, that the then existing high prices could not continue very long, and that the rage for speculation and over-trading would terminate in a serious re-action. An article that appeared in the *Scotsman* newspaper, in the spring of 1825, distinctly pointed out the convulsion which was about to happen. This was written by Mr. M'Culloch, and confirms the high reputation he has acquired for his knowledge of the science of trade, at the same time that it illustrates, in the strongest manner, the great importance of cultivating this science.

Although the explanation which is here given

of the cause of over-trading in 1824 and 1825, makes that cause to consist in an excess of demand beyond supply, and the miscalculations of merchants and manufacturers, in respect to the continuance of high prices, and in no respect in a state of high prices produced by a superabundance of paper money, it is not intended to deny that the issue of paper was much greater than it ought to have been, and that it produced very injurious effects. The manner in which such a large issue operates, under such a state of circumstances as that which existed from 1822 to 1825, seems to be by carrying over-trading, when once begun, much further than it would go without it, in consequence of its preventing the proportion of supply and demand, when made equal, from lowering prices, and thus checking further productions as soon as it naturally would do. The facilities afforded by paper keep up, for a certain time, though probably a very short time, a fictitious state of prices; and, by thus encouraging miscalculations, lead to additional productions, when the market is actually full, and consequently give rise to a glut of commodities.

But although this is a very great evil, there was, in 1825, one still greater; for all the over-trading, and all the over-issues of paper, would

never have produced such a convulsion as took place, had the banks been able to fulfil their engagements; and it was their want of capital, and the simultaneous failure of so many of them, that occasioned, in fact, the greatest portion of the distress.

In Scotland there was as great over-trading as in England, and a great facility of obtaining accommodation from the Banks. In 1823, the highest amount of notes in circulation was 3,462,012*l.*; and in 1825, it was 4,683,212*l.**, being an increase of more than one-third: but when the system of speculation and over-trading exploded in Scotland, the great wealth of the banks enabled them to pay all demands upon them; and no such intense distress occurred as took place in England.

The injury that respectable and solvent banks do, by issuing too much paper, and extending over-trading, arises from a similar cause to that of over-trading itself, namely, negligence on the part of banks to examine into the causes of high prices, and miscalculations in respect to the continuance of them. This is quite evident from the acknowledged rules by which they regulate their issues. The Directors of the Bank of England conceive they cannot issue too much paper, while it is issued in discounting "legiti-

* House of Commons Report on Scotch Banking, p. 7.

mate mercantile paper," and the bankers of Scotland keep as much paper in circulation as they can, under their practice of exchanging each other's notes, that are paid in to them, twice a week. But it is obvious, that the observance of such rules must lead to the encouraging of over-trading; because when the state of trade is such as to give rise to over-trading, the quantity of "legitimate mercantile paper" will rapidly increase; and the additional amount of transactions in trade will keep employed a greatly augmented issue of paper.

These considerations show, that, in order to check over-trading, so far as the banks are concerned, it is necessary that bankers should abandon these rules; and that, at all times, when prices are very high, they should make themselves acquainted with those facts, which will enable them to judge, with some degree of accuracy, as to the probability of those prices continuing; and as to the expediency of increasing or diminishing their accommodations to trade.

Ministers have constantly been a conspicuous party in contributing to encourage and extend over-trading by their practice of boasting, whenever they have an opportunity, of the great prosperity of trade; and of speaking confidently respecting the permanency of its prosperity.

The conductors of the public press, also, seeing

every thing around them bearing the most prosperous appearance, have, very naturally, expressed themselves in such a way as to lead men of business to place confidence in the continuance of high prices, and to embark in ruinous speculations; when the actual circumstances of trade required admonitions of caution, and predictions of a fall of prices.

The error of calculating on the continuance of high prices, and a state of prosperous trade, which has been so generally committed, and has proved so ruinous in its effects, has been chiefly caused by a want of due acquaintance with the principles by which the proportion of supply and demand affect trade. The miscalculations of merchants and manufacturers arise from their adherence to a common routine of practice: they neglect the science which would teach them to refer high prices to their true causes, and which would enable them to calculate with tolerable certainty on their continuance. Over-trading has been so evidently the result of this ignorance, that its frequent recurrence affords the strongest reasons for persevering in every effort to extend and diffuse the study of that part of political economy, which includes the principles of barter and exchange. This could not fail to be of the greatest service in producing a different and improved course of conduct amongst all persons in trade,

or possessing any influence over its operations, whenever the circumstances of it were such as to produce a strong temptation to over-trading*.

Although what has now been stated on the subject of the late distress is sufficient to explain the nature and cause of over-trading, it is a subject of such great importance, that no apology will be made for referring to some additional facts, in order still further to illustrate the principles which have been advanced. These facts are supplied by the history of the trade of this country during the last twenty years, and are particularly deserving of being introduced into this inquiry. They prove, that a similar state of over-trading has taken place since 1807, in 1809 and 1810, in 1813 and 1814, and in 1817. They also prove, that on each of these occasions there was an excess of demand beyond supply; very high prices; a state of very prosperous trade; and then an excessive over-trading: and, further, that, in consequence of over-trading, there was

* The French Government, highly to its credit, has appointed M. J. B. Say, Professor of Political Economy. He gives an annual course of lectures at Paris, on the application of the Science of Political Economy to National Industry, to which all persons are admitted gratis. This example is well worthy of the imitation of his Majesty's Ministers; particularly after the late distress has proved how much the prevailing ignorance of this science contributed to that distress.

a glut of commodities; very low prices; and, in the conclusion, numerous bankruptcies and universal distress. They prove, moreover, that there was the same stagnation in foreign markets as that which has followed the distress in 1825; so that, upon the whole, there is a perfect analogy between these instances of great commercial distress and the distress of 1825.

In the year 1807, the prices of commodities in general were only a little higher than the ordinary level of prices, one year with another, prior to the restriction of cash payments in 1797. There was a small exceeding, but this was to be accounted for by the existing difference between the value of bank paper and that of gold*.

Prices began to rise in 1808, and became very high in 1810. Trade, in consequence, became very good in the beginning of 1808; and continued so for a period of nearly two years and a half, up to the summer of 1810.

The rise of prices in 1808 was owing, first, to an excess of demand beyond supply in 1807†; and, secondly, to the opening of new markets for British and colonial productions. The scantiness of supply was occasioned by the war, the orders in council, and by the anti-commercial decrees of Buonaparte having excluded Great Bri-

* Tooke on Prices, p. 61.

† Ibid. p. 75.

tain from all direct commercial intercourse with every country in Europe, Sweden excepted*. The new markets were the result of the transfer of the seat of government from Portugal to the Brazils, and the virtual emancipation of the Spanish colonies†.

But the prosperous state of trade of 1809 and 1810 was converted into a state of over-trading by the merchants and manufacturers imagining, that the high range of prices would be permanent; and extending their speculations by all the means in their power. The consequence was a glut of commodities, a fall of prices, numerous bankruptcies, and, by the beginning of 1811, universal distress.

The effect of this distress was such a diminution in the production of commodities, by the loss and withdrawing of capital, as to produce a scarcity of many leading articles‡, and to cause an improvement in prices; and the ports of the Baltic being opened in 1812, these circumstances occasioned a demand for goods that exceeded the supply, and the rise of prices which took place in 1812. Prices advanced and became very high in 1813, and continued so till the summer of 1814. But the merchants and manufacturers again produced a state of excessive

* Tooke on Prices, p. 69.

† Ibid. p. 72.

‡ Ibid. p. 91.

over-trading, by extending their speculations, upon the supposition that the high prices would be permanent. The consequence was exactly the same as in 1810, namely, a glut of commodities in 1815, a fall of prices, numerous bankruptcies, and general distress.

The extreme depression of trade at this period was followed, as it was in 1811, by the withdrawing of capital; and by the stocks of importers, dealers, and manufacturers, becoming considerably reduced, the supply of several articles became evidently below the average consumption*; and in consequence of a demand taking place about the same time for shipments to the United States of America, and to the East Indies, the demand for commodities again so much exceeded the supply, that prices were restored in the beginning of 1817, and continued to advance till the autumn of 1818. But this prosperous state of trade was again turned into a state of excessive over-trading, by the miscalculations of the merchants and manufacturers respecting the permanency of the high prices, and a glut of commodities again took place, and the country was again involved in general distress in 1819.

This statement of facts, when connected with the explanation which has been given of the

* Tooke on Prices, p. 409.

cause of over-trading in 1825, shows, that, during the last twenty years, trade has been continually changing, from one extreme to another. It has been at four periods in an extremely prosperous state, namely, in 1809, 1813, 1817, and 1825; and at four others in an extremely depressed state, namely, in 1811, 1816, 1819, and the end of 1825. The tables of prices, and of exportations and importations, show a corresponding state of extremes as to elevation and depression of prices, and as to the quantity of goods imported and exported, with those great fluctuations in the prosperity and depression of trade.

Every person, who has read the public journals during the last year, must be fully acquainted with the effect produced by the distress of England, in depressing all foreign markets. In Germany, France, Switzerland, and America, no goods could be sold with a profit, and numerous bankruptcies have taken place. An opinion may be formed of what the effect of former periods of distress in England was on foreign markets, from the following extract from M. Sismondi's work on the Principles of Political Economy; which also further proves the analogy between the case of 1825 and the other cases:—

“ Nous avons vu les marchandises de tout genre, mais sur-tout celles de l'Angleterre, la

grande puissance manufacturière, abonder sur tous les marchés de l'Italie, dans une proportion tellement supérieure aux demandes, que les marchands, pour rentrer dans une partie de leurs fonds, ont été obligés de les céder avec un quart ou un tiers de perte, au lieu de bénéfice. Le torrent du commerce, repoussé de l'Italie, s'est jeté sur l'Allemagne, sur la Russie, sur le Brazil, et y a bientôt rencontré les mêmes obstacles."— "Au mois d'Août, on se plaignait, au Cap de Bonne-Esperance, que tous les magasins étaient remplis Européennes, qu'on offrait à plus bas prix qu'en Europe, sans pouvoir les vendre. Au mois de Juin, à Calcutta, les plaintes du Commerce étaient de même nature."—"Le voyage de M. Fearon dans les Etats Unis présente d'une manière plus frappante encore ce spectacle*."

As these great fluctuations in trade, since 1807, have been contemporaneous with the modern paper money system that was introduced in 1797, they have no doubt been much connected with it. The Bank of England, by taking the lead, and the country banks by imitating it, in issuing a superabundance of paper, and thus carrying confidence and credit to their utmost limits, whenever trade was in a prosperous state, must have promoted its progress into a state of

* Nouveaux Principes d'Economie Politique, tom. i, p. 337.

over-trading. But Mr. Tooke has proved, in a most conclusive manner, in his work on High and Low Prices, that the high prices and excessive over-trading of the years 1809, 1813, and 1817, did not originate in issues of paper; though he admits that they were excessive, and affected prices to the extent of the depreciation of paper, as expressed by the high price of gold.

As to the over-trading of 1825, this case is so completely analogous, in all its circumstances, to those of 1809, 1813, and 1817, that it is perfectly correct to come to a similar conclusion in respect to it; and to say, that it was not the result of the issues of bank paper between 1822 and 1826, great as those issues certainly were.

As, however, an opinion is entertained quite opposite to this by many persons of high authority on these subjects, it is right to examine the grounds on which it is founded, and to see whether the principles to which they refer will justify their conclusion.

These persons do not oppose the doctrine, that high prices were the proximate cause of the over-trading; and therefore the question in dispute is, what gave rise to these prices; whether excessive issues of paper, or the state of the supply and demand for commodities?

According to the acknowledged theory of money, when the value of money is diminished,

the prices of commodities of every kind and description, without any exception, rise in a corresponding degree. A reference, therefore, to this principle alone will go far towards deciding the question; for if the prices of all things had risen in 1824 and 1825, no other conclusion could be come to, but that money was depreciated; whereas, if the prices of some articles of very general use did not rise, then the conclusion must be, that money was not depreciated.

On this latter point, Mr. Tooke's Tract on Currency affords exactly the evidence that is wanting. He shows, by a reference to facts, that "while the prices of all commodities, which rose between the close of 1824, and the first three or four months of 1825, from 30 to 50, and in many instances as high as 100 per cent., had fallen, in the last three months of 1825, to or below the level from which they rose, the prices of corn and meat varied very little*."

Here, then, the best possible proof is supplied, that the currency was not depreciated; for if it had been depreciated to the extent assumed, it must have altered the prices of corn and meat in the same degree as it altered all other prices.

The same conclusion is obtained by referring to another criterion of the value of currency,

namely, the state of the foreign exchanges. It appears from an account given by Mr. Mushet, in the Appendix to his Tract on the Currency*, that between the 3d of January 1823, and the 30th of December 1825, the exchange between Paris and London was never lower than 25 francs, 15 cents. which is as nearly as possible the par; and that the exchange between Hamburgh and London, during the same period, was never below 36. 6., which is above par†. But it is absolutely impossible, that the exchanges could have continued so high, if the currency had been so depreciated as to have raised prices to the extent to which it is affirmed it did raise them.

There remain two more reasons to show, that, notwithstanding the quantity of paper was very much increased, paper was not depreciated. First, the increase of transactions which took place at the same time was so great as to give full employment to the whole of the paper. Secondly if bank notes had become so depreciated as to raise all prices 20 or 30 per cent., as it is said they did, the price of bullion must also have risen; and made it the interest of every man

* No. I.

† “ The fixed par is taken at 34 schellings 11 grotes and $\frac{1}{4}$, which is esteemed the true par by the merchants.”—Article Exchange, Supp. Ency. Brit. vol. iv, p. 232.

who held a bank note to require gold for it; but no such drain on the banks took place.

The reasons which have now been given, for explaining the causes of over-trading and commercial distress, show how unfounded those opinions are, according to which this distress is assumed to be a proof of the decline of the commercial superiority of England. So far from this being the case, it is undeniable, that the real origin of the distress consists in her superabundant wealth, and in her power to produce all kinds of valuable commodities being much too great for the demand, though this demand comes from nearly all the markets of the world.

This explanation also shows how groundless the opinions are of those persons, who attribute the late distress to the amount of the national debt and of the taxes. The late long period of commercial prosperity, from 1822 to the end of 1825, is evidence, that the influence of the debt is not so pernicious as they suppose it to be. In point of fact, the payment of the dividends on it is a mere transfer of so much money from one set of individuals to another, and serves, in no degree, to diminish the wealth of the country.

When, at public meetings, one manufacturer after another, in speaking of the distressed state of trade, attributes it to the national debt, they know very well that all that is wanting is an increase of orders to clear their warehouses ;

and that, after these arrived, no man would any longer occupy himself in trying to prove that the funding system was the cause of over-production.

As to the taxes, it is not the amount of them, but the peculiar nature of some of them, which is injurious to trade and manufactures. There are, no doubt, many taxes, duties, and prohibitions, which contribute to raise wages, or which fall on raw materials, and which, therefore, are very injurious, and ought to be revised. The duties on foreign goods directly serve to restrain the sale and exportation of British manufactures, and in this way are a main cause of distress. But this is so important a topic, and has so much influence on the interests of our manufactures, that it will be made the subject of a separate section.

If the taxes were so imposed, that they should not fall on raw materials or corn, nor greatly interfere with the consumption of foreign goods, it is possible that the manufactures of this country would not be at all injured by the levying of fifty millions of annual revenue.

The explanation that is here given of the causes of distress likewise serves to show how little reason there is for that habit of despondency, which constantly prevails in times of peculiar depression ; because, at the very moment in which it is greatest, the remedy of the evil is most actively in operation ; namely, an immense consumption of every

kind of goods, in consequence of their cheapness, and a diminished exertion to keep up the stock of them.

Although scarcely a year has elapsed since the distress of 1825 first showed itself, the daily journals contain accounts of every branch of manufacture being already more or less revived. It is worthy of remark, that among the numerous causes of low prices and distress, no one has attributed them to the loss of a single foreign market, or to diminished consumption at home. In place of the consumption of goods having fallen off, it has probably been greatly increased; for the reason just stated; and as, at the same time, the production of goods has everywhere been reduced as low as possible, these two causes, by their concurrent operation, will, without doubt, soon restore the ratio of supply to demand to such a state as to secure higher and remunerating prices*.

* The following observation of M. Say is very applicable to this part of the subject. — “ Je remarquerai en même temps que, quoique le mal soit grand, il peut paraître encore plus grand qu’il n’est. Les marchandises qui surabondent dans les marchés de l’univers, peuvent frapper les yeux par leur masse, effrayer le commerce par l’avilissement de leurs prix, et n’être pourtant qu’une fort petite partie du marchandises faites et consommées en chaque genre. Il n’y a pas de magasin qui ne se vidât en peu de temps, si toute espèce de production de la marchandise qu’il contient venait à cesser simultanément dans tous les lieux du monde.” — Lettres a M. Malthus, p. 121.

SECTION IV.

On the Effect of High Duties on Foreign Goods, in contributing to the Stagnation of Trade.

ALTHOUGH the facts belonging to the late case of over-trading show, that the cause of it was the miscalculations of the merchants and manufacturers; and lead to the conclusion, that the recurrence of it may be prevented by more caution on their part; since, at the same time, the real evil is producing more goods than can be sold with a profit; a still better remedy for it evidently would be, to extend the market for British manufactures, so that the whole that the capital, machinery, and labour of the United Kingdom can produce, may find a regular and profitable sale.

The experience of the last twenty years proves, that the capital, machinery, and labour of the United Kingdom are able to produce a much larger quantity of manufactures than, upon an average of years, the consumption requires, at such prices as will afford a profit upon them; and it is this circumstance, evidently, that has

produced, from time to time, a tendency to over-trading, and those extremes of depression and prosperity, which trade during that period has arrived at. When circumstances arise to set the whole power of the country to work in increasing manufactures, it is probably able to produce as much in one year as is sufficient for the average demand for two or three years; and, therefore, every thing ought to be done that can be done to increase this demand.

In regard to the home consumption, as there are no restrictions upon it, no legislative measure could increase it; but it is far otherwise in respect to colonial and foreign markets; as will now be shown by stating in what manner the existing laws render the demand in them for British goods much less than it naturally ought to be.

As the only inducement to export British manufactures is the value that can be received in return, the quantity and value of them that can be exported must necessarily be limited by the quantity and value of foreign goods which are imported, as there is no other means of paying for them; for this reason, it is not the allowing of British goods to be exported free of duty, but the consumption of colonial and foreign goods in the United Kingdom, which determines the quantity of British manufactures that can be

exported (agricultural produce being always too dear to find a market abroad); and therefore every regulation of the law, which serves to restrain in any degree the consumption of foreign goods, restrains in the same degree the sale of British manufactures for exportation.

If a law were passed wholly to prohibit the importation of colonial and foreign goods, the inevitable consequence would be, that no British goods whatever could be exported; because there would exist no means of receiving payment for them. So, for the same reason, every law that partakes of the character of such a law, and in any respect serves to diminish the consumption of foreign goods in the United Kingdom, contributes to diminish, in the same degree, the power of exporting and selling with a profit as large a quantity of British manufactures as could otherwise be sold.

Now, in point of fact, although there is no law wholly to prohibit the importation of foreign goods, the duties upon them go a very great way towards prohibiting or diminishing the consumption of most of them. There is, at this moment, no colonial or foreign article, except some materials of manufacture, the consumption of which in the United Kingdom is not restricted. The law that was passed in 1825, for altering the duties on foreign goods, though commonly

supposed to have established free trade, did little more than change a system of absolute prohibition into a system of prohibitory duties: it has imposed on all foreign manufactures, with a few exceptions, a duty of 30 per cent. ; which, with the merchants' charges, is little short of a prohibitory duty. Some very highly finished goods may be imported under it; but nothing like a general consumption of foreign goods has or can take place. This new law has also imposed equally high, and in some instances higher duties, on almost all articles of luxury and taste, and prohibits nearly all foreign articles of food. Such a law must have the effect of rendering the consumption of foreign goods little or nothing, in comparison to what it would be if no such high duties and prohibitions existed.

If all the duties on colonial and foreign goods were so reduced as to add to their price not more than about a twentieth part of what it would be without a duty, no doubt can be entertained, that the consumption of them would increase immensely. If French wines could be imported, so that the lighter kinds might be sold at from one shilling to three shillings a bottle, in place of importing 1000 tuns, which is the present amount, 15,000 tuns at least would proba-

bly be imported as formerly, in the reign of William III*. Hundreds of other articles might be mentioned, of which the consumption would increase, if the duties were lowered: but for every twenty shillings worth of a foreign article so imported, in addition to what is now imported, there must be exported a twenty shillings worth of a British article to pay for it; and therefore, while, on the one hand, the existing duties establish a most injurious boundary to the means of selling British goods, and thus contribute to the recurrence of distress; on the other hand, reducing them, in the way proposed, would create such a new demand for them, all over the world, as would probably keep constantly employed, with a profitable return, the whole power of the United Kingdom, in producing every description of manufacture.

If this course of policy were adopted, there is no calculating to what a degree the demand for British manufactures would extend itself in the British possessions abroad and in foreign countries: for the existing system of duties not only fixes a limit to the production of British

* “ L’Angleterre consommait, en 1688, plus de 15,000 tonneaux de vin de France.” — “ L’Angleterre n’a reçu que 1000 tonneaux en 1823.” — *Du Commerce Extérieur*, par M. D. L. Rodet, p. 79.

goods, but also to the productions of foreign countries. If these duties were lowered, and the consumption of foreign goods in England was greatly increased, every foreign country would immediately increase its productions, and thus become a richer customer for British goods; and no more would be heard of the markets of Germany, Italy, America, or the East Indies, being loaded with British goods that could not be sold, except at a loss; because, when the goods of these countries can be sent to the United Kingdom, the inhabitants of them will immediately increase the production of them, in order to give them in payment for the goods which they will see in abundance in their markets. In this way the progress of the increase of foreign productions will keep pace with that of British productions; and the lowering of the duties on foreign goods in the United Kingdom will thus contribute directly to increase, to an immense extent, the industry, wealth, civilization, and happiness, not only of the United Kingdom, by increasing the demand for her productions, but also the industry, wealth, civilization, and happiness of every other part of the world.

This view of the injurious effects of the system of high duties, on the production of the foreign possessions of Great Britain and of

foreign countries, affords another strong reason, in addition to the many that have heretofore been given, in other places, for showing the necessity of reducing the whole of these duties to a very low rate; and it is, therefore, high time for Parliament to depart from the practice of submitting to the control of prejudice and private interests, and to do away at once with all restrictions that prevent the free use of every thing which every foreign country can supply.

SECTION V.

On a Metallic Currency.

ONE of the consequences of the late commercial distress has been, a very general distrust of the policy of employing paper money, and an anxiety to establish a large proportion of metallic currency, as part of the currency of England; but as the effect of legislating on such a feeling would be to deprive the public in a great measure of the valuable assistance which paper money affords to industry and trade, it is highly necessary to give the subject some further consideration, before any decided opinion is formed in favour of the advantages of a metallic currency over a currency of paper.

That a metallic currency has some advantages over a paper currency is unquestionably true, but it is accompanied with many disadvantages. The operation of carrying coin from place to place, the necessity of examining the genuineness and weight of it, and of counting it piece by piece on every occasion of receiving or paying

money, are great inconveniences. Besides, the history of every country affords numerous instances of the injuries which have been suffered from the mal-administration of it.

The levying of large sums under the plea of brassage and seignorage, and the evils resulting from alterations in the established standards of money, occupy the pages of all writers in the early part of the eighteenth century, on the subject of money. In consequence of these alterations, at different periods, our present pound sterling is only a little more than one-third of its original value. The florin, the money of account in most parts of Germany, is six times less than it originally was. Scotland, prior to the Union, had debased its pound to a thirty-sixth part; the French livre has been reduced to a seventy-fourth of its original value; the Spanish maravedi to less than a one-thousandth; and the Portuguese real has suffered still more*. But as none of these alterations have taken place without altering the value of all property, both public and private interests must have suffered immensely.

A metallic currency not only deprives a country of one of the best supports of industry, namely, the assistance of the discounts and loans of bankers, but it occasions a great loss to the public

* Ed. Rev., vol. vii, p. 275.

in maintaining it. If the currency of the United Kingdom were wholly metallic, it would, at least, require fifty millions of sovereigns; but this amount of the national capital, when so employed, would become dead stock, and wholly unproductive of any demand for labour, or in making any profitable return. The loss to the nation, in consequence of thus employing so much of its capital in dead stock, would be, taking the average rate of profit on capital employed in trade so low as six per cent., three millions a year; and to this must be added a further annual sum of at least one million, to make good the expense of new coinage, from the injury the coin would suffer by wear, by fires, shipwrecks, and other casualties.

It may be further observed, respecting a metallic currency, that it does not protect a country from being exposed to excessive speculation and over-trading. In periods of confidence and great commercial prosperity, all persons in trade have recourse to the extensive use of private paper, such as bills of exchange and promissory notes; and by multiplying these they are able to carry over-trading to as great an extent as they please*.

* The following is an extract from the evidence given by Mr. Gladstone, before the Committee on Scotch banking:—

Question. “ You have stated, that a very great proportion of the circulation of Lancashire consists of bills of exchange ;

Mr. Tooke, in his work on High and Low Prices, says, "What occurred at Hamburg, at the close of the last century, is a proof, that even a purely metallic currency admits of a large superstructure of private paper and credit, which may be subject to sudden contraction and extension. The bank of that city presents an example of the most correct regulation of a metallic standard that has hitherto been known: there is no paper whatever current as money; yet, under circumstances favourable to speculation, there was a very great increase of its general circulation, through the medium of private paper, and of transactions on credit, in the years 1797 and 1798." After describing an extensive system of over-trading that was then carried on, especially

what is the lowest denomination of bills of exchange generally used in the circulation of that district?"—*Answer.*

"We have them of all denominations. The manufacturers are, some of them, in the habit of deriving their supplies of bank notes and gold, for the payment of their people, from shopkeepers, and they draw bills, according to the amount that may be convenient for them, on their agents in London. Tradesmen of other descriptions are also in the practice of drawing bills for their payments, as may suit their convenience, and in consequence we have a considerable amount of small bills; I call them small from 10*l.* up to 50*l.*; between these sums we have a considerable circulation in the county, which pass from hand to hand, so fully indorsed, that before their maturity it is hardly possible to add another name."—*Report, &c. p. 222.*

in colonial produce, and a fall of prices, Mr. Tooke proceeds to say, "The inevitable result was a destruction of the paper which had been created there, and which had extended itself, along with the speculation, to other towns of Germany, and to some in Holland: these, therefore, participated in the reaction. The number of houses that failed at **Hamburgh**, between August and November 1799, was eighty-two, and the amount of their engagements upwards of 29,500,000*l.* banco marks, or about 2,500,000*l.* sterling. The rate of discount rose, during that period, to 15 per cent."—"I might mention other instances, such as the failures at **Paris**, and in other parts of the **Continent**, in 1818 *."

In the **Gentleman's Magazine**, and **Annual Register**, there are descriptions given of three great commercial revulsions which originated on the **Continent**, where the currency was wholly metallic; the first in 1763; the second in 1771-2; the third in 1778-9.

* Tooke on Prices, p. 123.

SECTION VI.

On Paper Money.

THE history of the progress of paper money shows, that the first circulating paper existed under the name of bills of exchange, or promissory notes ; and that it had its origin in those pecuniary engagements, which form a part of the credit which subsists among commercial men with regard to their commercial transactions. It was soon discovered that these bills, or notes, were susceptible of a more extended use than that of merely recording and recovering debts ; and, in consequence, they were made an effective medium of exchange in all payments of a large amount. Having gone so far, an obvious improvement presented itself, which was, to render them, by a small change in their form, applicable to the ordinary payments in which the precious metals were employed ; this improvement was put in execution, and thus the use of promissory notes of bankers for performing the same purposes as a metallic currency was established.

This introduction of the use of paper money

may justly be considered as one of the most beneficial of all the expedients to which human ingenuity, in improving the relations of society, has given birth; and as coined metals were substituted for barter in the first stages of the civilization of mankind, it may be expected, as the world becomes more and more refined, that paper money will be substituted universally for coin.

The advantages of paper money may be illustrated by supposing a case of two merchants; one residing in a country where paper money is extensively in use, and the other residing in a country where the currency is wholly metallic, and both employing equal stocks in the same trade. The former can, without imprudence, carry on a greater trade, and give employment to a greater number of people: the latter merchant must always keep by him a considerable sum of money, in order to answer the demands continually coming in for payment of the goods which he purchases on credit. By being obliged to keep so considerable a sum unemployed, he must sell in the year less goods than he might otherwise have sold; his annual profits must be less; and the number of people employed by him, in preparing his goods for the market, must be less. The former merchant, on the other hand, keeps very little money un-

employed for answering occasional demands: when they come in, he gets a bill discounted by his banker. With the same stock, therefore, he can have at all times in his warehouse a larger quantity of goods than the other merchant; he can thereby both make a greater profit for himself, and give employment to a greater number of people.

All writers upon the commerce of these countries have attributed a great share of its rapid progress to the use of paper money. Adam Smith says, "by substituting paper in the room of a great part of the gold and silver money, a great part of this dead stock is converted into active and productive stock."—"When, by the substitution of paper, the gold and silver necessary for circulation is reduced to perhaps a fifth of its former quantity, if the value of only the greater part of the other four-fifths be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry; and, consequently, to the value of the annual produce of land and labour *."

Mr. Ricardo says, "A currency is in its most perfect state when it consists of paper money, but of a paper money of equal value with the

* Vol. i, p. 293.

gold which it professes to represent. The use of paper money in place of gold substitutes the cheapest in place of the most expensive medium; and enables the country, without loss to individuals, to exchange all the gold, which it before used for this purpose, for raw materials, instruments, and food, by which both its wealth and enjoyments are increased *."

The use of paper money in England, notwithstanding the great defects of the banking system, has unquestionably assisted in producing those energies in trade and commerce, by which she has become so elevated in the rank of nations; and it may be fairly assumed, that without the aid of paper money it would have been impossible for her to have carried on her immense dealings; for the facilities paper money affords in the circulation and exchange of every article of production are beyond all calculation. The main foundation of trade is credit; and as the necessary effect of paper money is to encourage the extension of commercial credit, the more widely the circulation of paper is extended, the more the transactions of trade will be increased, and the productive industry and wealth of the country augmented.

Although the instances are numerous, not only in England, but in other countries, of great

* Principles, &c. p. 433.

public injury being the consequence of the use of paper money, it will be found on examination, that the cause of the evil in every one of them has been some defect in the laws under which it has been issued. In respect to England, sufficient has already been said to show, that the whole of her losses from paper money may be set down to the impolitic regulations of the law of banking. In the United States of America, where the issuing of paper money has been even more abused than in England, Government has been the cause of it, either in consequence of being the party who issued it, or by interfering to relieve the private banks from paying in specie, or from discharging their debts. But in America there exist instances of paper money being used with the most complete security and success. The paper money of Massachusetts is supplied by forty-six banks; and although they issue notes for so small a sum as a dollar, they remained solvent and prosperous during the convulsions that the American trade experienced in the last war. Their notes, at that period, were readily discounted throughout all America, at a rate that was merely sufficient, with common interest, to cover the expenses of their transmission home*.

* “ *Heads of Information on the System of Banking adopted in the United States.* ”

“ The system of banking adopted in Massachusetts being

What has taken place in Scotland, respecting paper money, places beyond all doubt the be-acknowledged to be, among the North American States, the best adapted to its end, the following remarks will chiefly apply to that State; in which, by judicious regulations, the alleged impossibility of the co-existence of a paper and metallic currency of the same denomination is not felt, the legislature being enabled, indirectly, so to control the issues as to prevent any excessive diminution of specie.

“The paper currency of Massachusetts, which includes a population of 700,000 individuals, is supplied by forty-six chartered banks, fourteen in Boston, the remaining thirty-two in the other towns and country at large. The specie represented by paper is the eagle, value ten dollars, the half eagle, and the silver dollar. In the medium rate of exchange the dollar may be valued at four shillings and sixpence.

“The capital of these banks averages 750,000 dollars each, and their average issues may be estimated at 500,000 dollars, though many greatly exceed this sum. All the banks issue dollar-notes, and many never issue any of any other denomination. All the notes are unstamped, and the mean time of their circulation is about two years.

“The country notes circulate freely in Boston (although not payable there), for the purposes of trade; and there is one house, which has devoted itself exclusively to discount them at a rate sufficient to defray the charges of transmitting them to their respective firms, which rate varies according to their distance from Boston, between one-eighth and one per cent.

“The capital embarked is specified in each charter and paid up before it is granted, and no subsequent change can take place in this specified sum without a corresponding enactment. Every partner is responsible in his private for-

nefit and security which a country may derive from it. The extensive use that is there made of paper money, without any coin being in circu-

tune for the engagements of the firm. In the front of each charter stands the proviso, that a single refusal of the payment of specie on demand for a note, shall, *ipso facto*, operate as a forfeiture of the charter.

“ An attested return of the amount of debts, credits, and specie in hand, is deposited yearly by each firm, in the office of the Secretary of State, who lays these returns before the legislature at the opening of the Session. If any thing unsatisfactory appears on the face of these statements, a motion is agreed to, of course, for a committee to examine and report on the solvency of the firm. This report, containing the amount of specie in their possession, &c. is published. One third in specie of the notes in circulation is, in an average case, considered a satisfactory return. Rather more than twenty years ago, about half the banks were unrestricted; but this plan was soon abandoned, not, however, before many of them had failed. Since the establishment of the first chartered bank, there has been but one instance of a failure among them, which ensued upon the connection of the bank in question, which was a small one, with an unrestricted one in Rhode Island. Most of the other states now employ chartered banks, with greater or less deviation from the Massachusetts system, and, in most cases, with corresponding degrees of inconvenience. The forfeiture of the charters on non-payment of specie is nowhere insisted on, but in Massachusetts and Maine: in New York (unless recently) and the Western States, there is no annual examination of the balance sheet by the legislature.

During the whole of the late war, Massachusetts, Connec-

lation, and the fact, that in the course of one hundred and thirty years, that it has been used in Scotland, the whole loss which the public has

ticut, New Hampshire, and Rhode Island, persisted in cash payments; the other States suspended theirs; the consequence of which was, that in New York itself, the New York notes and those of the other Southern States suffered a depreciation in respect of those of Massachusetts, varying from fifteen to twenty-five per cent.; yet the Massachusetts bankers continued their cash payments without inconvenience, nor did they in the least experience any share in the distress and ruin universally entailed on their neighbours by the variation of prices in the transition from war to peace.

“ In Kentucky, where the system is entirely unrestricted, the results have been still more disastrous; the banks there are forty in number, and owing to their improvident conduct, about six years ago, the metallic currency disappeared from circulation, and the paper suffering excessive depreciation, the inhabitants were reduced to the primitive processes of barter, from which state they have hardly yet recovered.

“ Amid these convulsions, the paper currency of Massachusetts has never, for a moment, suffered depreciation; her banks, as stated above, have remained solvent and prosperous, and her notes are everywhere throughout the Union readily discounted, at the rate necessary to cover the expenses of their transmission home. In consequence of the system of inspection above-mentioned, large shipments of silver out of the country (which are necessary in the trade with China and the East Indies) are uniformly attended with a voluntary contraction of the issues; and although dollars for exportation are generally at a premium of from 2 to 5 per cent., which would be expected speedily to have the effect of draining the country of them, yet no want is ever experienced; and a

sustained by the failure of banks amounts to no more than thirty-six thousand three hundred and forty-four pounds*, completely sustains the truth of this statement.

But although the great advantages of employing paper, and the security with which it may be employed, are thus placed beyond all doubt, the work remains to be performed of devising some plan of banking for England, by which the public may be protected from the abuses of paper money.

The chief part of the difficulty of establishing a safe system of banking, arises from the trade being profitable according to the proportion in which the amount of notes, that is kept in circulation by a bank, exceeds the amount of capital which is kept in reserve for the payment of them. This circumstance attaches to it an ele-

remarkable instance is on record, about twelve or fourteen years ago, of their being actually sustained in circulation by the importations of the bankers themselves.

“Such are the results and practical operation of this system, which has occasioned, that, for uniform commercial prosperity, Boston and the State of Massachusetts stand almost unrivalled in the mercantile world, notwithstanding that her natural advantages are, probably, inferior to those of any other commercial country”—(The foregoing is a copy of a printed paper, dated 69, Fleet Street. Feb. 22, 1826.)

* Committee of the House of Commons on Scotch Banking, Evidence of J. G. Craig, 1826, p. 270.

ment of insecurity, because it acts continually as a powerful stimulus in tempting bankers to issue more notes than in prudence they ought to do. And even when banks resist this temptation, and act on the most prudent principles, the trade is of such a nature, that they are nevertheless exposed to great difficulties by sudden and unforeseen demands, and the alarms which may arise in times of distress or danger.

But notwithstanding this trade of issuing paper money is one which exposes those who follow it, as well as the public, to great losses, what has happened in America and Scotland affords a sufficient experience of its success, under a judicious system of banking, fully to justify the opinion of Adam Smith, that "if bankers are restrained from issuing any circulating bank notes, or notes payable to the bearer for less than a certain sum; and if they are subjected to the obligation of an immediate and unconditional payment of such bank notes, as soon as presented, their trade may, with safety to the public, be rendered in all other respects perfectly free*."

The following statement has been drawn up, in order to explain how so free a banking trade would be safe (supposing the only restriction to be that of the use of notes for less than twenty

* Vol. i, p. 498.

shillings) from the evils, which are commonly supposed to be inseparable from paper money.

The objects to be secured by a perfect system of banking and paper currency are ; 1. A sufficient capital ; 2. Protection against over issues ; 3. An efficient convertibility into gold ; 4. Protection from fluctuations ; 5. Protection against the opening of weak banks ; 6. Protection against panics.

1. As the profit on banking is certain, when the trade is free, capital will flow into it in abundance ; for if it did not, the profit on banking would soon be greater than the profit upon any other trade, and there would thus be two rates of profit in the same country ; but this has been clearly proved by all writers on Political Economy to be impossible. Large joint stock companies would be formed, and the individual liability of each shareholder would afford full protection to the public.

2. The quantity of paper that would be issued under so free a system would be limited, in a proper degree, by its being the interest of each bank, not only to keep its own issues within bounds, but to exert all its power in preventing every other bank from forcing too much of its paper into circulation.

After the principle of profit establishes in a country a number of banking companies with

large capitals, each bank will daily have paid into it the notes of some of the other banks; but no bank will reissue these notes, because it would be throwing away, by doing so, the opportunity of making profit by issuing its own notes; The banks will therefore be driven to exchange the notes so paid in with each other; and every bank, that has a balance against it, will be under the necessity of paying the amount of that balance in gold, because the bank that has to receive payment will stand in need of all the gold it can procure to carry on its own business.

In this way an efficient check is established against over issues; first, by the exchanges producing the immediate return to a bank of all paper that it issues, beyond the fair demand of its own transactions with the public; and, secondly, by the expense which a bank must sustain in providing gold for the payment of the balances that would be against it on the exchanges, if it persisted in issuing too much paper.

3. The obligation of an immediate and unconditional payment of bank notes, renders them, as Adam Smith says, in every respect equal in value to gold and silver money, since gold and silver money can at any time be had for them. Whatever is bought or sold for such notes, must necessarily be bought or sold as cheap as it could have been for gold or silver.

This convertibility of paper into gold, when the trade of banking is free, is rendered efficient by the necessity already explained, under which the banks are placed, of exchanging each other's notes, either daily or at certain short intervals, and of paying the balances in gold; and in this way there is continually going on among the banks a practical and effectual conversion of paper into gold. It is this continual demand for coin, by the banks on one another, that gives the principle of convertibility full effect, and no such thing as an excess of paper, or as a depreciation of its value, can take place for want of a sufficiently early and active demand for gold. If in England the power of converting paper into gold has not prevented an excess of paper, because the demand does not occur until long after the excess has taken place, this is to be attributed to the system of English banking.

4. A system of banking carried on by a number of rival banks, acting under the control of regular exchanges of bank notes, precludes the possibility of those sudden extensions, and contractions of the currency, which the Bank of England can, at its pleasure, bring about. For if one or more banks attempt greatly to enlarge the quantity of paper, the surplus beyond what the circulation required would be immediately returned, through the exchanges; and if one or more

banks were to attempt to contract the quantity of paper more than the circulation rendered expedient, the other banks would increase their issues, and keep the circulation at a proper level. If all the banks were to combine to increase the quantity of paper beyond what the circulation required, although this might for a time render the control of the exchanges inoperative, as the consequence must be a depreciation of the value of paper, every holder of a bank note would have an interest in demanding gold for it, and the banks would in this way suffer more in the end from their combination than they could gain by it.

5. The principle of private interest, when the trade of banking is free, provides a complete protection against the interference of weak banks. For if a bank force a larger quantity of its notes into circulation than its capital and fair dealings justify, as the circulation will admit of only a certain amount in the whole, this bank will diminish the quantity of paper in circulation of the other banks, and injure their interests: to this they will not submit, but they will combine together to collect the paper of the offending bank, in order to make a run upon it. So also if any new company were to be formed, without a sufficient capital, as its proceedings would certainly end with injuring the old banks, they are

led, in such a case, in defence of their own interests, to combine together, and at once to destroy such a bank.

6. If the consequence of a free system of banking is the establishing of solvent banks, and the exclusion of weak ones, all grounds of panic are removed; and the public will be taught by experience, that their best policy, in times of difficulty, will be to forbear from increasing the pressure on the banks.

But although a system of banking might be established, by leaving free the operation of the influence of the principles of convertibility, of profit, and of private interest, which would admit of paper money being extensively used, with perfect security from bank failures, the banks would still be able to make those large issues of paper when prices were high, and a spirit of speculation existed, which would encourage over-trading. But this is no reason against employing bank notes, because, under such circumstances, if the currency were wholly metallic, over-trading would go on, as it has always gone on, in Lancashire, with the help of bills of exchange, and the system of indorsing them from one party to another.

The improvident conduct of banks, in issuing paper too freely when prices are high, arises from the same cause as the miscalculations

of merchants upon the future state of prices, namely, negligence in inquiring into the causes of their being high, and too much confidence in their permanency. But as the late distress has taught the banks their past errors, it may be expected that they will adopt a different line of conduct when prices again become very high, and whenever a great spirit of speculation shows itself. It may also be expected, that the principle of private interest will assist very much in bringing about an improvement in the managing of the banking business, because every bank, which greatly increased its issues subsequently to the beginning of 1824, must have lost more in the end, by the embarrassments of trade, than it gained in the first instance by increasing the quantity of its paper in circulation.

In addition to the advantages already mentioned, that belong to paper money, it may be observed, that when the trade of banking is quite free, and small notes allowed to be issued, the profits upon it allow of the banks giving cash credits to a large amount, and paying a liberal rate of interest on deposits. The former assist, in a great degree, the industry of the country, and the latter afford to all classes the benefits of saving banks.

On the whole, sufficient has been said to show

that it is the interest of every commercial country to introduce a free system of banking, and the most extensive use of paper money, consistent with its convertibility into coin. This is the object which England, at this moment, ought to attempt to secure, in place of patching up the deformed system her laws have established, by new restrictions on paper, and endeavouring to secure a larger proportion of metallic money.

The objection to the general use of paper money, that it will greatly increase the crime of forgery, does not appear to be well founded. It was not to the quantity of paper in circulation of late years, or to the allowing of notes, under the value of five pounds, to be issued, that the numerous instances of forgery were to be attributed ; but to the wretchedness of the engraving of the notes of the Bank of England, and the fact, that no improvement had been made in it for upwards of a hundred years. Whatever commodity may be adopted to serve as a circulating medium, it must be a hopeless task to guard completely against the effects of the issues of spurious money. If that commodity consists of the precious metals, it will be adulterated and debased. Six hundred and eight persons were convicted of forging and of passing forged coins in England and Wales, in the seven years

ending with 1796, being the seven years previous to the Bank Restriction Act, and when the currency was chiefly metallic.

The notes of the Bank of Ireland were very much forged previously to 1814; but the directors of the Bank of Ireland having then adopted Mr. Oldham's plan for engraving their notes, very few forgeries have since been attempted.

There are very few forged notes of the one pound notes of the Scotch banks in circulation; and infinitely less loss has been occasioned by those forgeries than by the issue of spurious coins*.

It is therefore clear, that the fear of the increase of the crime of forgery of bank notes is not so well founded as to justify the depriving the public of the many advantages of the free use of paper money, and to incur the great expense of a metallic currency.

* Mr. Joplin mentions, in his Tract on Corn and Currency, that "with a certain quantity of engraved, and other works upon their notes, Messrs. Perkins and Heath consider them so far at present inimitable, or beyond the reach of profitable forgery, that they have engaged to supply the provincial bank of Ireland, whose note was furnished by them, with a new issue, should there ever be a passable forgery upon it, the cost of which would amount to several thousand pounds."—P. 73.

SECTION VII.

On the Bank of England.

A VARIETY of circumstances point out the present as a proper time for taking into consideration the expediency of continuing to maintain a trading company, like the Bank of England, invested by the legislature with exclusive privileges, and possessed of a capital of such a large amount as to give it an uncontrolled dominion over the currency of the country.

It may possibly be true, that this Bank contributed, as it is said it did, in some degree to advance the prosperity of the country, when it was first established, and when commerce was in its infancy; but there is abundant reason now to doubt, whether, for many years, it has been productive of any advantage whatever.

The circumstances, which have totally altered its original character, and the nature of its connection with the public, are the great increase of trade, and the extent to which paper money has been introduced into the circulation. While trade was carried on upon a small scale, in com-

parison with what it is now; while the paper of the Bank of England did not exceed a few millions, as was the case prior to 1780, and while but few country banks existed, the Bank of England did not possess the power of inundating the country with its paper. But it is now an admitted fact, that the Bank Directors have the means in their hands, without being subject to any control whatever, of increasing or reducing the circulation in such a degree, as to produce the greatest embarrassments to trade. "Though," says Mr. Ricardo, "I am fully assured, that it is both against the interest and the wish of the Bank to exercise this power to the detriment of the public, yet when I contemplate the evil consequences which might ensue from a sudden and great reduction of the circulation; as well as from a great addition to it, I cannot but deprecate the facility with which the state has armed the Bank with so formidable a prerogative*." Mr. Tooke says, with great force and truth, "Next to the administration of the state, there is no administration of any office so immediately and extensively affecting the interests of the community, as that which is entrusted to the persons (the Bank Directors) who are invested with the privilege of issuing paper

* Principles, p. 431.

money; and who, by the manner in which they exercise that privilege, have it in their power to produce great changes in the property and condition of every individual in the kingdom. No man, or set of men, ought, in my opinion, to be entrusted with that privilege*." Mr. Mushet says, "The power which the Bank of England appears to possess over the funded property of the country, and, indeed, of all other property, is of such magnitude as to require, and to deserve, the greatest attention of the legislature. They have in their power, by an extension of their issues, of from one to two millions in the course of a few months, unknown from the public except from their effects, to raise the price of consols from twenty to thirty per cent.: and by withdrawing them again to cause as serious a fall†." The Bank of England, as it has been well described, in point of fact, in place of being what it was originally intended to be, merely a bank for commercial purposes, is become a great engine of state; receiving the revenue; paying the interest due to the public creditor; circulating exchequer bills; accommodating Government with immediate advances on the credit of distant funds; and assisting generally in all the great operations of finance. It

On Currency, p. 124.

† On Currency, p. 143.

not only influences, by the superior magnitude of its capital, the state of commercial transactions, but now that paper has so far supplanted coin, it possesses some of the functions of sovereignty, in addition to those which belong to its trading character; so that, while we call to mind, that it possesses the means of assisting commerce and financial affairs, it should not be forgotten, that in the same degree it has the power of controlling and disturbing them.

In regard to commerce, as the prosperity of it throughout all its branches, from that carried on by the retail dealer to that by the richest foreign merchant, depends on commercial credit, the power of the Bank is without any limit; for, if it think proper to force into circulation a very large quantity of its paper, when trade has a tendency to fall into a state of over-trading, it will contribute to encourage the wildest and most ruinous speculations: and if, on the other hand, it should suddenly contract its paper when very abundant, it will cause the best founded speculations to fail, and the ruin of all who have embarked in them. It is in this way that commercial credit, which of all things is of a most delicate nature, and most difficult to be kept from running into destructive extremes, exists wholly at the will and pleasure of the Bank Directors; and, consequently, that the success or failure of

every man in business is more or less dependent upon their movements. This is a state of things so entirely repugnant with every principle of trade, and with the great principle of security of property, that it ought not to be tolerated any longer. Commercial credit, so far as paper money is connected with it, instead of being thus left to the mercy of twenty-four Bank of England Directors, ought to be placed under the protection of a free system of banking; on the one hand the principle of profit would lead the banks to extend credit at all times as far as it ought to be carried; while, on the other, the principle of competition would prevent them from going too far, and forcing so much paper into circulation as would lower its value.

The influence of the Bank in affecting the value of funded property is observable in every newspaper. Not only the acts of the Bank, but every rumour about what the Bank is about to do, is watched with intense interest, and made the grounds of a rise or fall on the Stock Exchange. Sometimes it is the scale of discounts; sometimes the rates of interest charged on discounts; sometimes purchasing exchequer bills; sometimes accommodation in receiving instalments of loans; sometimes the dead weight; and at all times any act of the Bank, however trifling, that is sufficient to form the grounds for a change in

the value of every man's funded property ; and this frequently in the interval that elapses between a person's giving his broker orders to buy or sell, and the executing of those orders.

In consequence of the Bank of England being possessed of so large a capital, and of its being the only bank in London that issues paper, it is able to exercise prodigious power over every individual who is extensively engaged in trade. The Directors, by refusing to discount the bill of any individual, may injure his character to such a degree as to deprive him of all credit, and ruin him in his business. By these means they exercise an arbitrary authority over the whole trade of London, that is wholly inconsistent with the liberty of trade, and with the security of property. If the supplying of the circulation of London with paper money were in the hands of several banks, the trade of London would be relieved from this odious tyranny ; at the same time that it would be able to reckon with more certainty on receiving accommodation, and, indeed, much greater accommodation than the Bank of England at present affords.

From this short statement of only a part of the injury which the public sustains in consequence of such an institution as the Bank of England, it may be supposed, that it confers some great benefits, in the way of recompense,

that justify the policy of suffering it to exist ; but it will appear, from a brief examination of its functions, that, in the way of serving the public, every thing it does could be as well done by having a number of rival banks.

The Bank at present issues about twenty millions of paper towards supplying the circulating medium : enough has been said already to prove, that in this branch of its business it has committed every sort of error, and frequently involved the country in great difficulties and distress ; and therefore it is scarcely possible, if, in place of one national bank, there were several banks in London, and each of them possessing a large capital, that the public could suffer from the change ; while there are good reasons for expecting, that these banks would supply the necessary quantity of paper money, without contributing to the recurrence of those great fluctuations in its amount which have been so often experienced. The profit of issuing paper, as before observed, would at all times secure a sufficiency of it ; and the competition that would take place, as a matter of course, would make each bank jealous of its neighbour, and ready to check, by all the means in its power, the over-issuing of paper.

As to the assistance which the Bank affords to trade, by its discounts, this is very little under-

stood, and exceedingly exaggerated. In a posthumous work of Mr. Ricardo's, *PLAN for a NATIONAL BANK*, there is the following very valuable opinion on this subject: "I believe it (the benefit which commerce has derived from the accommodation afforded to trade by the Bank) to be quite insignificant, compared with what is afforded by the private funds of individuals. From papers laid before Parliament, in 1797, in which the Bank gave a number as unit, and a scale of its discounts for different years, it was calculated, by some ingenious individual, after comparing this scale with other documents, also laid before Parliament, that the amount of money advanced, in the way of discounts, to merchants, for a period of three years and a half previous to 1797, varied from 2,000,000*l.* to 3,700,000*l.* But it appears, by the evidence given before the Committee of the House of Commons, on the law of pledges, that the house of Richardson, Overend, and Co., discount bills annually to the amount of twenty millions, and sometimes more. No one can doubt, therefore, that if the Bank were to break up its establishment, and divide their funds among the individual proprietors, the business of accommodating merchants with discounts would go on as well as it does now*."

But if, instead of this system of dealers in

discounts supplying the trade of London with money, these dealers formed themselves into strong banks, and issued their own notes, there can be no doubt, after seeing the accommodation they now afford to trade, exposed as they are to be greatly controlled in their operations by the Bank of England, that trade would derive immense advantage from the change.

With regard to the finances of the country, a description of the several ways in which the Bank is concerned with them, and of the sums of money it derives from its being the bank of the state, will show, that every thing might be done with as great security and at a much less expense to the public, if the Government should divide its business among two, three, or more banks.

In the first place, in respect to the depositing of the produce of the taxes in the Bank, the only condition that it would be necessary to secure from any new bank would be, the lodgment of a sufficient sum in the hands of Government, to afford a complete security; but such security would readily be given by the new banks, particularly if they were allowed to hold the balance of the public money, as the Bank of England now does, without paying any interest upon it.

In the second place, in respect to the paying of the dividends on the public stocks, this is

a matter of common banking business, for the due performance of which the new banks would be able to give ample security.

One bank might be employed to receive the excise duties, and to pay the dividends on the three per cents. ; another to receive the customs' duties, and to pay the dividends on the three and a half and four per cents., and so on. In regard to the expense now incurred by the public on this head, no one can doubt, who has read the Parliamentary papers and reports which describe the bargain that exists between the Bank and the Government, that an agreement might be made with a set of new banks, by which a very great saving might be effected in this item of the public expenditure.

In the third place, in regard to the advances which the Bank is in the habit of making to the Treasury from time to time, such a set of London banks as would be able to supply twenty millions of circulating paper, and give security for it, would unquestionably be possessed of sufficient means to make advances to as large an amount as the Bank of England has ever done.

Of one thing there can be no doubt, namely, that whenever the Government might have occasion to raise money in the way of a bank advance, it would be able to make much better terms, when a number of banks existed, than it

ever yet has made with the Bank of England*.

It is of so much importance to have the whole of the conduct of the Bank of England accurately explained to the public, that a detailed account will now be given of it on those occasions on which it has had the most influence upon commercial interests. The first case that will be

* According to the Second Report of the Committee of the House of Commons, on the Public Expenditure, in 1807, the advantages which the Government derive from the Bank are, first, the loan of their capital of 16,686,000*l.*, at three per cent.; secondly, the advance on the land and malt tax of 2,750,000*l.* at four per cent. The advantages which the Bank derive from its charter are, first, a large profit on the management of the public debt; secondly, the interest arising from between eleven and twelve millions of Government balances lying in their hands; thirdly, the profit from their paper circulation.

There was paid to the Bank of England, on the Capital of the Unredeemed Debt, as it stood on the 5th of April, 1824, as follows:—

At the rate of 340 <i>l.</i> per million on	£.	s.	d.
600,000,000 <i>l.</i>	204,000	0	0
Ditto 300 <i>l.</i> do. on 171,290,517 <i>l.</i> 1 <i>s.</i> 1½ <i>d.</i>	51,387	3	1
Ditto 340 <i>l.</i> ditto on Life Annuities.....	2,451	3	5½
Management on 4,000,000 <i>l.</i> purchased of } South Sea Company..... }	1,898	3	5
Ditto on their original capital of 3,000,000 <i>l.</i> :	4,000	0	0
<hr/>			
Total management paid to the Bank of } England, in the year ending 5th Jan: 1825	263,736	9	9½

Annual Finance Account, 1826, p: 134:

stated is the recent one of 1825 ; and after this, in succession, a short account will be given of the share the Bank has had in each of the commercial revulsions which occurred in the years 1818, 1815, and 1811. The conduct of the Bank of England during the suspension of cash payments will then be described, so that nothing may remain unknown in respect to the degree in which the Bank, on these several occasions, has been either useful or injurious to the state.

The conduct of the Bank of England between the begining of 1823 and the end of 1825, in increasing its issues so largely, has already been frequently mentioned ; and those opinions which have been quoted of Mr. Tooke, Mr. Mushet, Mr. M'Culloch, Mr. Drummond, and Mr. Baring, respecting it, cannot fail to impress, in the strongest manner, a full conviction, that the measures of the Bank were highly injurious to the public interests.

The only way of explaining the object of the Bank of England, in increasing the amount of its notes in circulation, in defiance of such strong indications, as have been mentioned, of an existing abundance of circulation, as an efflux of gold and a depression of the exchanges was stated in the House of Commons, by a member of great authority, namely, an anxiety on the part of the Directors to be able to continue to make a divi-

dend of eight per cent. They had committed a great fault in collecting a very large quantity of gold *: and they found that this had so great an effect in reducing their profits, as to render doubtful the practicability of maintaining the rate of dividend which had been established for some years. It became, therefore, an object with them to promote a demand for gold by a large issue of paper, in order to enable them to diminish their stock of treasure. This they accomplished by increasing the issues of their notes, and thus producing a quick return of them, and a demand for the payment of them in gold, wholly disregarding the consequences to the public of adding to the circulation just at a period when trade was in such a state, that a circumstance of this kind was sure to contribute to promote a ruinous system of speculation.

Upon a reference to the circumstances connected with the commercial distress of the year 1818 it will be found, that the Bank of England acted a conspicuous part in it. It has already been mentioned, that trade was very prosperous from the beginning of 1816 till the autumn of 1818; and that then a system of over-trading took place, which produced a glut and universal distress.

* Mushet on Currency, p. 153; Tooke on Currency, p. 72.

In the first six months of 1817, although "the exchanges manifested a tendency downwards, and the price of gold, upwards*," the Bank increased the amount of its notes in circulation by 700,000*l.* "If," says Mr. Tooke, referring to this issue, "the Bank Directors had not unfortunately, upon system, disregarded, in the regulation of their issues, the indication by which their predecessors, previous to 1797, professed to be guided, they would have been warned to contract instead of enlarging their issues†." But the Bank Directors were not satisfied with making this error of issuing 700,000*l.*, for in the last six months of 1817 they still further increased their issues to the amount of 1,870,268*l.*

The average amount of Bank of England notes in circulation, including bank post-bills, was from

	£.
July to December, 1816.....	26,681,398
January to June, 1817.....	27,339,768
July to December, 1817.....	29,210,035†

This increased issue produced a corresponding extension of country bank and private paper, and encouraged merchants and manufacturers to embark in the most extravagant speculations:

* Tooke on Prices, p. 110.

† Ibid.

‡ Report of the Lords' Committee, 1819, p. 323.

the result was precisely the same as that which has been described to have taken place in 1825. At the end of 1818 it was found out, that every market in the world was overstocked; prices fell suddenly, so as not to repay the cost of production, and not only England, but all other commercial countries, were involved in the greatest embarrassment.

The case of commercial distress in 1815 also exhibits the Bank of England as greatly contributing to it. In 1811 prices were very low, and trade greatly depressed. From the beginning of 1812 to the summer of 1814, trade had revived and become very prosperous. In 1814, a system of over-trading became general, and in 1815 and 1816 a state of universal distress took place.

In 1812 the average of Bank of England	£.
notes in circulation was.....	23,237,000
In 1813.....	24,023,000
In 1814.....	26,901,003*

This increase of Bank of England paper was accompanied with an increase of country bank paper, from 19,944,000*l.* the amount in 1812, to 22,709,000*l.* the amount in 1814†.

Here, then, again the Bank of England appears to have contributed to encourage over-

* Report of the Lords' Committee, 1819, p. 13.

† Sedwick's Tables, Mushet, p. 205.

trading, by greatly increasing the issues of its paper.

The commercial distress of 1811 is another case, in which the Bank encouraged over-trading by an imprudent extension of its paper. From 1808 to the autumn of 1810, trade was in a very prosperous state; but at the latter period over-trading became general, and a glut and a general distress were the result. In August 1808, the amount of Bank of England notes in circulation was 17,365,466*l*. But in August 1810, it was increased to 24,446,175*l*.*

These facts relating to trade and currency, from the year 1807, are taken from writings of the highest authority, and, therefore, there is every reason for trusting to their accuracy. But, being well founded, what a case of misconduct is established against the Bank of England! In each of these four instances of excessive over-trading, an opportunity was afforded to the Bank Directors, on the one side, of doing a vast deal of injury to the public interests, by extending their issues, and thus encouraging over-trading; and, on the other side, of doing a great deal of good by diminishing their issues and checking it. But when it appears, that they uniformly took the wrong course, who can say a word in defence of the manner in which they have ad-

* Report of the Lords' Committee, 1819, p. 281

ministered their functions? Who can hesitate to acknowledge, that they have exercised a most pernicious influence over trade; and to allow, that many of the millions, which have been lost by bad speculations in the last twenty years, have been lost in a great measure by their mismanagement of the currency?

Another heavy charge remains to be brought against the Bank of England, namely, that of having so increased the issues of its paper, between the period of the suspension of cash payments in 1797, and the resumption of them in 1821, as to have greatly depreciated the value of the currency for almost the whole of that long period. The fact that this depreciation did take place, and was the consequence of the excessive quantity of paper, however keenly disputed in 1811, and for a long time after, may now be considered as universally acknowledged.

During the first three years after the restriction of cash payments, while the Bank Directors kept the amount of their paper within moderate limits, there was no depreciation of it, but, on the contrary, it was of higher value than gold. This is proved by the rate of exchange with Hamburgh having been, during these years, from three to five per cent. above par. This state of things, however, changed immediately after the issues of Bank of England paper were considerably increased in 1800. The exchange with Hamburgh

fell, in 1801, to 29. 8*, and the market price of gold rose to four pounds five shillings per ounce.

From this time the Bank Directors continued to increase their issues more and more; and the rate of depreciation increased so much, that in 1814 one hundred pounds in bank notes was worth only 74*l.* 17*s.* 6*d.* in gold. The following table shows the value of one hundred pounds in bank paper, according to the market price of gold, from 1799 to 1822†.

YEARS.	Average Market Price of Gold per ounce.	Value of £100 in Bank of England Paper.
	£ s. d.	£ s. d.
1800.....	3 17 10½	100 0 0
1801.....	4 5 0	91 12 4
1802.....	4 4 0	92 14 2
1803.....	4 0 0	97 6 10
1804.....	4 0 0	97 6 10
1805.....	4 0 0	97 6 10
1806.....	4 0 0	97 6 10
1807.....	4 0 0	97 6 10
1808.....	4 0 0	97 6 10
1809.....	4 0 0	97 6 10
1810.....	4 10 0	86 10 0
1811.....	4 4 6	92 3 2
1812.....	4 15 6	79 5 3
1813.....	5 1 0	77 2 0
1814.....	5 4 0	74 17 6
1815.....	4 13 6	83 5 9
1816.....	4 13 6	83 5 9
1817.....	4 0 0	97 6 10
1818.....	4 0 0	97 6 10
1819.....	4 1 6	97 11 0
1820.....	3 19 11	97 8 6
1821.....	3 17 10½	100 0 0

* Lords' Report, 1819, p. 339.

† Tooke on Prices, Appendix to Part i, No. i.

The Bank Directors, on finding that they possessed the power of issuing paper with great profit, in consequence of the suspension of cash payments, abandoned the old rule of their predecessors, of contracting the issues of it whenever the foreign exchanges indicated a tendency to fall; and, in place of it, invented a rule, much more calculated to secure their object, of keeping in circulation a very increased quantity of paper, and securing a large dividend; namely, that of discounting all bills, which were in their opinion "legitimate mercantile paper*".

If the Directors had steadily acted upon the old rule during the period between 1799 and 1821, there can be no doubt, that the paper currency, during this period, might have been maintained of equal value with gold; for no principle is more capable of being conclusively demonstrated, than that the value of paper money, like that of every thing else, is determined according to the quantity of it in proportion to the demand for it.

Several other instances of the misconduct of the Directors might be referred to, for the purpose of showing how much injury they have done to the public interests; but, one only of them will now be mentioned; namely, their pro-

* Evidence of Mr. Whitmore and Mr. Pearce. — Report of Bullion Committee, p. 21.

ceedings after the passing of the Act in 1816, for further continuing the suspension of cash payments.

In the years preceding 1816, the Directors, in expectation that cash payments would be restored in 1817, according to the provision of the existing law, had reduced the amount of their notes in circulation, from 28,039,690*l.*, as it stood in April 1815, to 24,441,430*l.* on the 6th of January, 1816*: in consequence of this great reduction of paper having raised the foreign exchanges, and brought the price of bullion down nearly to the mint price, a more favourable state of things could not exist for accomplishing the restoration of cash payments, and for making the change to the ancient standard currency, without any derangement in the prices of commodities, or in the then existing value of property.

The Ministers, however, of 1816, thought otherwise, and obtained the passing of a new Act for postponing the resumption of cash payments till 1818.

In the preamble of this Act the reason given for the postponement is: "in order to afford time to the Directors of the Bank to make such preparations, as to their discretion and expe-

* Lords' Report, 1819, p. 324.

rience may appear most expedient, for enabling them to resume payments in cash.”

But the Directors, in place of making any such preparations, increased their issues, and restored the former difficulties in the way of resuming cash payments. On the 6th of August, 1816, the amount of notes of the Bank of England in circulation was 25,887,140*l*.^{*} : on the 9th of July, 1816, the exchange with Hamburgh was 36,10*†*. But this very favourable state of things was changed into an unfavourable state, by the Bank Directors having increased their issues to such a degree, that on the 12th of July, 1817, they amounted to 30,686,720*l*.[‡] The consequence of which, in respect to the foreign exchanges, was, that on the 18th of July, the exchange with Hamburgh fell to 34,6*§*.

Although the public suffered greatly by the course which the Directors adopted in the management of the currency, it appears that the affairs of the Bank enjoyed a degree of unexampled prosperity during the long period it was relieved from paying its notes in gold; a circumstance which contributes in some degree to explain the meaning of the rule, then acted upon for the first time, of regulating the issues of their notes according

^{*} Lords' Report, 1819, p. 325.

[†] *Ib.* p. 352.

[‡] *Ib.* p. 326.

[§] *Ib.* p. 353.

to the demand for discounts for "legitimate mercantile paper."

The following extract from the Supplement of the *Encyclopædia Britannica* gives an accurate description of the profits of the Bank, up to the year 1816, and is well deserving of the attention of those persons, who see nothing in the conduct of the Directors but unabated exertions for the public good :—

"From all these different causes, from the increased circulation of its notes, and from the vast accumulation of public business, the profits of the Bank appear to have been prodigiously augmented in the course of the late war; so that its average dividend, including the bonus from time to time added to it, will be found to amount, from the year 1797, to nearly ten per cent.*; and it is calculated, besides, on data which admit

* The usual dividend on bank stock was seven per cent. prior to 1797 : in April 1807 it was raised to ten per cent. Between 1799 and 1807 a bonus was paid, in addition to the dividend of seven per cent., as follows :—

Bank stock.			
In June 1799 a bonus on every 100 <i>l.</i> of 10 <i>l.</i> loyalty loan.			
May 1801	ditto	ditto	5 <i>l.</i> navy 5 per cents.
Nov. 1802	ditto	ditto	2½ <i>l.</i> ditto.
Oct. 1804	ditto	ditto	5 <i>l.</i> per cent. cash.
Oct. 1805	ditto	ditto	5 <i>l.</i> ditto.
Oct. 1806	ditto	ditto	5 <i>l.</i> ditto.

Inquiry, &c. by R. Mushet, Evidence, p. 54.

of no considerable error, that the sum of undivided profit must, in the mean time, have increased to the enormous amount of 13,000,000*l*.*: out of this fund the Bank advanced to Government, for the year 1816, a loan of 6,000,000*l*.; and at a Court of Proprietors, held in May 1816, it was resolved to make an addition to the capital of the Bank of 2,910,600*l*., the effect of which was to raise the capital of each proprietor of 100*l*. of stock, producing 10*l*. per annum, to 125*l*., and to increase his income proportionally, namely, to 12*l*. 10*s*. per annum. The great profit realized by the Bank, since the suspension of its cash payments, has produced a corresponding rise in the value of its stock. Throughout the year 1797, the average price of Bank stock was about 125*l*. per cent.; since that period it has been gradually improving in value, and its market price now (1816) amounts to

* This view of the affairs of the Bank, since the year 1797, is founded on the statements contained in the work of Mr. Ricardo. He seems to have made his calculations on grounds sufficiently certain; and his capacity for diligent research leaves little room to question his accuracy. The amount of the surplus capital accumulated by the Bank, in 1797, which is the foundation of all the subsequent conclusions, is ascertained from the account of its affairs laid before Parliament, at the time of the suspension of cash payments in 1797.—See Ricardo's Proposals for a secure and economical Currency, Appendix, No. 5, p. 103.

about 262*l.* per cent. The original capital of the Bank has thus acquired, since the year 1797, when the Act passed releasing it from its obligation of paying in specie, an additional value, equal to nearly 16,000,000*l.*, which, added to the estimated increase in the sum of its undivided profit, amounting, according to Mr. Ricardo's calculation, to 9,599,359*l.*, makes a sum of 25,599,359*l.*, the actual improved value of the Bank capital during the last nineteen years*."

Notwithstanding the numerous instances which can be proved of the misconduct of the Bank, there still exists a backwardness to join in an attempt to get rid of it; a circumstance which plainly originates in the long cherished prejudices that prevail, in regard to some supposed advantages that the commerce and the finances of the country derive from its assistance. The long time the Bank has been established has a great effect in keeping up these prejudices; and the power the Bank possesses, of injuring every extensive trader in London, contributes to stifle complaint, and to lead to false acknowledgments of its utility. But a better acquaintance with its true character must soon deprive it of the high place it hitherto has held in the public imagination.

The great power which the Bank possesses

* Supplement to the Encyclopedia Britannica, vol. ii, p. 79.

over the currency makes it absolutely indispensable not to allow mere prejudices to protect it, in maintaining its situation as a privileged and over-rich banking company. Ministers and parliament ought to look much deeper into the question of the policy of any longer allowing it to exist, except on terms of perfect equality with other banking companies; and this they ought to do without delay, for as sure as such a state of trade shall again take place, as shall revive a strong temptation to over-trading, the Bank will again encourage, by its increased issues of paper, the country banks to increase theirs, and thus do all that lies in its power to bring the country into new difficulties.

Although the charter of the Bank does not expire till 1833, this circumstance ought not to deter Ministers from making every effort in their power to bring it to an immediate termination. The conduct of the Bank has been of such a nature as to place it entirely at the mercy of parliament; so much so, that parliament would be quite justifiable in withdrawing the charter forthwith, if the Bank should refuse to accept of a reasonable consideration for relinquishing it; for it may be laid down as an indisputable maxim of the constitution, that whenever parliament confers particular privileges, for the public good, parliament preserves the right, on

its part, to inquire into the exercise of these privileges; and if it finds, that instead of their being exercised so as to be conducive to the public good, they are made the means of doing a public injury, the right remains of revoking the trust, and of withdrawing from the offending party the privileges it had conferred upon it. The granting of exclusive privileges, Lord Coke says, cannot be justified, except on a case being made out of *urgens necessitas et evidens utilitas*. So must, therefore, necessity and utility exist to justify the continuation of exclusive privileges. The rule to be followed in such cases as that of the Bank of England was ably and accurately laid down in the House of Commons in the last session, in the debate upon the representation of Edinburgh. It was then said—"When a measure of general utility is at issue, I will not allow a private right to interfere; but when a partial measure affects a private right, I will defend the private right*."

If Ministers, in consequence of at length adopting more correct opinions respecting the Bank of England, would go seriously to work in endeavouring to bring the Directors into an arrangement for immediately surrendering their charter, and reducing their capital to such an

* Mr. Canning.

amount as would admit of a probability of other banks being established with equal capital, there is little reason to think that the Bank would decline to make such an arrangement, and prefer leaving their case to be dealt with by parliament on the abstract question of whether their conduct did or did not amount to a forfeiture of their charter.

If Ministers were to offer, as the basis of the arrangement, a full compensation for the loss the Bank would sustain, by now surrendering their exclusive privileges, and the continuing to the Bank of a large share of the public business; but were prepared, at the same time, with a plan to take all the public business from it, if it declined the offer; there can be little doubt that the attempt would be successful.

When it is taken into consideration how great an obstacle the Bank of England is to the establishing of a sound system of banking, and how much real injury it does to the public, from the manner in which it administers the currency, the public can well afford to give a large sum to the Bank, as a compensation for agreeing to such an arrangement, in respect to its charter, as the interests of the public require.

SECTION VIII.

On Joint Stock Companies.

THE trade of banking is of such a nature, that it is scarcely possible for any but a very numerous body of partners to furnish a capital sufficiently large for carrying it on advantageously to the public. A single individual, or a few individuals, cannot be, but very rarely, possessed of that amount of capital which alone can render this trade a safe one; for this reason, in order to establish in a country a sound system of banking, it is indispensably necessary, that care should be taken not to impose any legislative restrictions in the way of large bodies of partners associating together, to form joint stock banking companies.

The success of the Scotch banks proves, that this mode of carrying on the trade is very well suited to it; and if the restrictions in the way of establishing joint stock companies in London were removed, the profit that is to be made by banking, the spirit of rivalry, and the advantage of getting rid of the arbitrary conduct of the Bank of England, would unquestionably

lead to the forming of several companies of this kind.

The establishing of such companies in London would produce a total change of the banking system, not only in London, but in the interior of the country.

As to London, it may safely be said, that the establishing of such new companies cannot render the administering of the currency worse than it has been under the Directors of the Bank of England. These companies will supply two essential accompaniments of a sound system, which have never yet existed, namely, a sufficient degree of skilfulness, and an active competition.

Although, perhaps, the predominant failing of the Bank of England has been that of sacrificing every other consideration for the sake of securing a large profit on their trade, it is, at the same time, true, that a number of their errors are to be attributed to their ignorance of the principles of currency and banking. But if the business of supplying the London circulation were to be placed in the hands of several sets of Directors of opulent companies, chosen, as they would be, in all probability, for their known qualifications as men of scientific as well as of practical attainments, and constantly employed in guarding the interests of their constituents, the science of banking would be ex-

tensively cultivated ; and by becoming the subject of constant discussion and examination among a number of well-informed persons, who now feel little interest in the study of it would soon be well understood.

The bringing of the principle of competition into full operation is the other great advantage that would arise from establishing joint stock companies in London. It is perhaps the want of competition, that has been the chief source of all the mischief that has arisen from the existing banking system ; for, as the profit of a bank is in proportion to the amount of paper which it can keep in circulation, competition is essentially necessary, as the only means of checking over-issues. When competition is in full operation, and the business of banking is in the hands of several opulent companies, if one of them attempt to force into circulation more of its paper than there is a regular demand for, as every other bank will be a sufferer, all are interested in joining together in taking measures to collect the paper of the offending bank, and to return it suddenly and in large quantities to it. It is in this way that established banks are kept in check, and weak ones prevented from being able to maintain themselves.

The evidence that was taken before the select committee, which was appointed in the last session to inquire into the Scotch banks, shows, that

this is the practice of those banks, and that it has always been successful. It also shows how much, in all other respects, the principle of competition prevails, and contributes to that complete success with which paper money has been for the greater part of a century the only money in Scotland. The following is an extract from the evidence : —

Mr. Thomas Kinnear, a Director of the Royal Bank of Scotland.—“ Do you consider that the banks act upon a principle of combination in Scotland, to extend and keep out their paper, or upon a principle of rivalry, in checking the issues of each other?—It is well known the banks do not act upon a principle of combination, and that they act on a principle of rivalry.

“ At what period did the present system first take root and expand itself?—The system may be said to have taken root as soon as there was a competition between two banks: that took place in the year 1728. Between that time and the year 1750, or 1751, the competition went on between those two. The system may be said to have expanded, when about that time some provincial banks originated; soon after that the British Linen Company began to issue notes, and the competition became general*.”

Mr. Robert Paul, Secretary of the Commercial Bank of Scotland.—“ Is there a constant spirit of competition among the banks?—No doubt there is. I think there is just that degree of competition and rivalry on the one side, and that measure of friendship and good

* Evidence, p. 137.

understanding on the other, which, like the powers of opposite forces, keep the banks firm and steady*.”

Mr. John Thompson.—“ Do you consider that the existing banks carry on their business of issuing notes upon a principle of competition with each other?—I think they do.

“ Would you say that they act upon the contrary principle; namely, of combination with each other?—I think that is impossible†.

“ In 1778, the Royal Bank made a run upon the Bank of Scotland; and then there was, after that, a course of warfare between some Glasgow Banks and some Aberdeen Banks‡.”

Many persons are of opinion, that, in order to establish Joint Stock Companies, it is expedient to protect the property of the shareholders from being liable for more than the amount of their subscription.

But experience fully proves, that no such protection is necessary, and that the profit to be made by the trade of banking is quite a sufficient inducement to embark in it with all its risks. Three only of the banking companies of Scotland have charters; and since the power has existed in Ireland of forming joint stock companies, the Provincial Bank and the Northern Bank have been established§.

* Evidence, p. 212. † *Ib.* p. 164. ‡ *Ib.* 167.

§ “ On the first establishment of the Provincial Bank of Ireland, many of the Directors had doubts about the propriety

Though some cautious persons may be discouraged by the prospect of unlimited liability, which the law as it now stands exposes them to, the rule of the law ought to be rigidly adhered to, and in the case of the banking trade above all others.

At the very moment that the plan of allowing these companies to be formed is founded on the principle of obtaining adequate security for the value of bank paper, it seems to be very inconsistent to propose to relieve the subscribers to these companies from making their fortunes responsible. In place of holding out encouragement to parties to come forward to form new companies, the greatest care should be taken to avoid removing the natural obstructions that are in the way of forming them, because, the consequence of rendering those who embark in the trade free from risk beyond their subscriptions, would be schemes for companies without end, many of them for no other purpose than filling the pockets of the projectors of them, in the shape of law agents, secretaries, clerks, and treasurers.

If the legislature does not interfere, but leaves of forming it without a Charter, to limit the responsibility of the shareholders; but reflection, in the first instance, and subsequent experience, have proved to them how perfectly chimerical those fears were, and have removed every apprehension on the subject."—Joplin on Banks, p. 73.

every subscriber liable for his whole property, banking companies will be formed with caution, and by a description of persons who will attend to the proper management of them; and the business of banking will be in the hands of just that class of individuals in which it ought to be: but if the legislature does interfere, the regular and properly established banks will always be exposed to have their business damaged and their profits diminished, by the sudden starting up of new banks, with large subscribed capital, wholly uncalled for by the necessities of trade, or the existing circumstances of the currency. If the measure already proposed, of requiring all banks to give security, be adopted, this will put down so many of the present weak banks, that the rate of profit on banking for some time will be increased, and hold out a sufficient encouragement to make sure of the establishing of several more Joint Stock Companies.

Scotland may be again referred to as an illustration of the reasoning now made use of; for had it not been for the confidence which proceeds from the known fact of all the fortunes of the persons who are in banks being liable to the debts of the banks, panics must have happened, runs for gold would have followed, and the failure of many banks must have taken place. There can be no doubt, that "if the partners of a bank are all bound to the whole extent of their

fortunes, for the debts of the copartnery, security would be afforded to the public against ultimate loss, even if the bank should, from any sudden pressure, be obliged to suspend its payments; at the same time that the knowledge of this ultimate stability, by conciliating the public confidence, has a powerful tendency to prevent runs*." The following question was asked of Mr. Thomas Kinnear, by the Committee on Scotch Banking: "Do you think it would injure the system of banking in Scotland, if charters were granted to the banks generally, by which the property of the partners was rendered free from liability to loss beyond what they held in the concern?" His answer was: "Yes; I think if that were done generally, it would be very injurious. If such a charter had been in existence, in the case of the Mid-Lothian Bank and the Fife Bank, it would have had the effect of injuring the public very materially†." The report of the same Committee very accurately states, that the general provisions of the law of Scotland are calculated to promote the solidity of banking establishments, by affording to the creditor great facilities for ascertaining the pecuniary circumstances of individual partners, and by making the private fortunes of those partners available for the discharge of the obli-

* Edinburgh Review, No. 89, p. 281.

† Evidence, p. 139.

gations of the bank in which they are connected*.”

In point of fact, the fortunes of all individuals belonging to a bank is the highest security that can be taken for diligence, fidelity, and honesty, in the management of a bank; and, therefore, it would be extremely unwise for the legislature to make it a part of a new system of banking to relieve partners from this liability.

* Report, page 4.

SECTION IX.

On the disadvantages attributed by Mr. Tooke to a Circulation in which Paper is in large proportion compared with the Metals.*

IF the measures which have been proposed were adopted, nearly the whole currency would consist of paper money; and it would certainly be liable to be objected to by those persons who maintain, that such a currency is more exposed to fluctuations than a currency of which a large proportion consists of specie.

This opinion having been very strenuously maintained by a writer of such high authority as Mr. Tooke, in his recent work upon the state of the currency, it is necessary to examine, in some detail, the arguments with which he supports it.

Mr. Tooke says, "it would appear that a currency consisting of paper requires a much more violent degree of contraction to meet the occasional emergencies of sudden payments, than is

* See the title of the fifth section of Mr. Tooke's work on Currency.

necessary in a circulation containing a large proportion of coin*."

Mr. Tooke further states in substance, that these emergencies of sudden payments may be owing to a failure of the crops at home, and to the consequent necessity of an importation of corn, or to over-trading of any kind; in time of war, to a large expenditure abroad by Government for subsidies, or for the pay of troops; or in peace, to loans or other financial operations, such as the conversion of the French rentes, or extensive recoinages abroad; that, under these circumstances, extra payments might be to be made within six or twelve months, amounting to ten millions†; and that, in the case of a circulation consisting almost entirely of paper, before the contraction could be pushed to any thing like the extent requisite for this purpose, the notoriety of the drain upon the bank would create a run, from fears among the holders of paper for its eventual convertibility, and the suspension of cash payments would be inevitable‡.

This reasoning rests upon the assumption, that these extra payments can be made in no other way than by carrying bank notes to the banks to be exchanged for gold, and by exporting the gold so obtained; but this is not necessarily the case, because gold may be pur-

* Page 113.

† Page 104.

‡ Page 109.

chased to any amount from the bullion merchants. It is certainly true, that, in the event of an unusual demand for it, the value of it might be raised, and might thus make it more advantageous to obtain it from the banks ; but the circumstances which would occasion such a rise in the value of gold would add, at the same time, to the profit attending the exportation of commodities, and thus produce, not a contraction of paper money by carrying it to the banks to be converted into gold, but a great increase of exportation of goods to foreign countries.

By tracing the operation in detail, by which such extra payments as Mr. Tooke has described may be accomplished, it can be made sufficiently clear, that such an exportation is the constant consequence of them.

The moment it is known that the amount of payments to foreign countries is likely to be much greater than usual, an opportunity arises for merchants to turn their capital to account in new channels of dealings: they will be able in many ways to make a profit by anticipating the arrival of the time for making the extra payments ; they will have two modes of remitting funds abroad to meet them, one the sending of gold, the other the sending of other commodities. If they send gold, as there can only be a small difference between the value of it in Lon-

don and on the continent, they deal without the means of making much profit. Whereas, if they send other commodities, by making a proper selection of them, they have an opportunity of receiving a large profit on the transaction. If, for instance, a merchant sends one thousand sovereigns to *Hamburgh*, when they arrive there, they will be worth but little more than what they are worth in *London*; but if he buys sugar in *London* with these one thousand sovereigns, and sugar is in demand at *Hamburgh*, he may receive the average rate of trading profit, as much as eleven hundred sovereigns, or a bill, previously given for corn, for eleven hundred sovereigns payable in *London*. Merchants will, therefore, prefer sending goods, for the purpose of making extra payments, to sending gold; and thus it appears, that, in place of these emergencies for making extra-payments, mentioned by *Mr. Tooke*, being the cause of a drain of gold on the banks, and of a contraction of currency, they are the cause of an increased amount of commodities being manufactured and exported.

The truth is, that it is peculiarly the business of merchants to find out the means of remitting with the least expense; and if coffee, sugar, or any other commodity will bring more profit than bullion, bullion will not be exported. If

the balance of dealings and payments between two countries could by possibility be one hundred millions, there would not exist the necessity for an ounce of bullion to remit it. Mr. Ricardo says, "we should not export gold if we had any commodity which we could export more profitably." "If the sellers of corn to England to the amount, we will suppose, of a million, could import goods which cost a million in England, but would produce, when sold abroad, more than if the million had been sent in money, goods would be preferred." "If, which is a much stronger case, we agreed to pay a subsidy to a foreign power, money would not be exported whilst there were any goods which could more cheaply discharge the debt*."

What has of late happened in respect of the loans made by this country to South America, corroborates the foregoing reasoning, the greater part of them having been remitted in British manufactures. Mr. Gladstone says, in his evidence before the committee on Scotch banking, "I think, with regard to the exportations to the new states of South America, until within the last twelve months they were generally successful; the large loans which the governments of those countries obtained from the monied interests of

* On High Price of Bullion, p. 11, 12.

this, afforded great facilities *for the purpose of remittance* *.” Mr. John Thompson, another witness, says, speaking of the great exportation of manufactures from Glasgow to South America: “At first there were very large returns, and for some time afterwards, while loans were making in Great Britain for the new governments †.”

What took place in 1810 shows, that immense importations of corn may be made without the aid of the banks in supplying gold; for in that year, when corn of the value of 10,000,000*l.* was imported, bank paper was not convertible into gold. In 1796, when paper was convertible into gold, it appears that extra payments to a vast amount were effected, not by gold obtained by carrying notes to the banks, but by an increased exportation of goods. It is stated, in the Lords’ Report of 1797, on the Bank restriction, that although in 1795 and 1796 a sum of 4,600,000*l.* had been remitted for a loan to Austria; and although corn had been imported in those years of the value of 5,462,156*l.*; and although several millions had been paid, on account of the war in the West Indies, on the continent of Europe, in the island of Corsica, and other distant parts of the world ‡,

* Evidence, p. 220.

† Ibid., p. 147.

‡ In four years, to 1796, 33,510,775*l.*

“the demand for cash to be sent abroad, for the purposes before mentioned, was greatly compensated by a very large balance of commerce in favour of this kingdom; greater than ever was known in any preceding period.” The report goes on to state: “It is particularly observable, that the exports to Germany alone, for the two last years, have amounted to more than 8,000,000*l.* annually; when in time of peace they did not actually amount to more than 1,900,000*l.*.*” But what is still more striking is the following statement, founded on the authority of Mr. Irving, “that the quantity of gold and silver bullion exported, on an average of the last three years (1794, 1795, 1796), being years of war, is not a third of what was annually exported on an average of the three preceding years of peace (1790, 1791, 1792†).”

These facts establish the accuracy of the opinion already stated, that the real consequences of extra payments, arising from importing corn, from loans and subsidies, and from a great expenditure for foreign war, are not, as Mr. Tooke assumes, a contraction of the currency and a great exportation of gold; but a proportionate extension in the demand for British manufactures for exportation.

* Lords' Report, 1797, p. 143.

† Ibid., p. 145.

SECTION X.

The Banking System of England.

SUFFICIENT has been said already to explain the nature of the banking system of England; and, therefore, this section will be confined to little more than a recapitulation of the measures, which seem to be wanting to make sure of an effectual reformation of it.

Every one agrees in opinion in respect to the injury that has arisen from the conduct of the Directors of the Bank of England, in suddenly and extensively enlarging their issues at one time, and in as suddenly and extensively contracting them at another; and no one can doubt, who has paid attention to their proceedings, as described in these pages, of the mischievous effects, in many other ways, of the uncontrolled power, which they possess and exercise over the currency. The obvious remedy for these evils is to diminish this power, and to place it under the control of continual and efficient competition. The former would be effected by the Government paying the debt it owes to the

Bank; the latter by repealing the law, which prevents more than six persons from joining in a company in London for issuing bank notes.

Although the Bank Proprietors would be able, if they thought proper, to have as large a capital as they now have after the debt due by Government was paid, it is not likely that they would be able to make such a profit upon it, in competition with new banks, as would repay them for so employing it.

If once the legislature should decide upon introducing the principle of full competition into the banking business, the better course for the proprietors of the Bank to take would be to divide themselves into two, or three, or four banks, in every respect independent of each other. By doing so they might preserve to themselves the business they now have of supplying the London circulation, and of acting as the bank of the Government. The same persons and the same capital might possibly be allowed to keep the same business they now carry on without any new banks starting up, and with only this difference, that no one bank would be too powerful, and that the principle of competition would come into operation in protecting the interests of the public. For, although at first these banks might be disposed to act with a good understanding towards each other, and on

a principle of combination, there can be no doubt that a feeling of rivalry would soon grow up, and bring with it an active principle of competition. Should the proprietors of the Bank adopt such a plan, the debt due by Government might be divided amongst the banks, and remain in the hands of Government; and thus the change from a system of one national bank to one of rival banks might be brought about without inconvenience to any party.

In respect to the country circulation, until two objects are secured, it can never be on a safe footing. The first of these is the driving out of the business of banking of every bank, which at present exists without possessing capital fully adequate to meet all the claims to which it may become liable under any circumstances of difficulty and panic. The second, the preventing of the establishing hereafter of any new weak banks.

The opening of the trade of banking in London would go a great way to secure both these objects; because, if small notes were allowed to be issued, as they ought to be, the London banks would no doubt be led, for the sake of making profit on issuing them, to open numerous branch banks in the country, as the Edinburgh banks have done. Their large capitals would enable

them, in time, to supplant the existing weak banks: and they could have no difficulty, in future, in stopping at once any new weak bank, that might be opened in opposition to them.

But as the system existing in England has taken strong root, the business of supplying the interior of the country might continue for some time in the hands of the existing banks, and therefore, even if the English law respecting banking was made in every respect the same as the law of Scotland, more would be wanting to be done; a certainty of protection against the existing weak banks in England should be provided without delay, by making every bank give security for the full amount of its issues. It will be a great national benefit to place the notes of bankers, by this means, on such a footing as shall render the holders of them safe from insolvency, and establish the most perfect confidence, in the mind of the public, in paper money.

The convulsions in commercial credit, which have been experienced so repeatedly within the last forty years, and the public injury which has arisen from them, plead strongly for such a legislative interposition. "While" (as it has been forcibly said) "every adventurer, however unprincipled, is allowed to open a money shop, and to thrust out notes, not worth perhaps the

paper on which they are engraved, into circulation, so long may we lay our account with experiencing the recurrence of bank failures *."

The following extract, from the 86th number of the *Edinburgh Review*, explains the proper manner of carrying into effect this plan of making banks give security, and the good effects that will arise from it.

"It appears to us, that the security might most advantageously be made to consist of funded property; and that every banking company should be obliged to deposit in the hands of Government as much stock as should be equal to the whole, or, at least, to three-fourths of the entire stamps issued to them. By the adoption of such a plan as this, it is hardly conceivable that any considerable loss could ever be incurred by the failure of country banks. It is obvious, too, that this system would have many collateral advantages. By obliging the bankers to increase their securities, whenever they made any considerable addition to their issues, this plan would have the effect to throw very considerable obstacles in the way of that excessive issue of paper, that invariably takes place under the present system, when prices are on the advance; and would, consequently, pre-

* *Edinburgh Review*, vol. xliii, page 274.*

vent its sudden and injurious contraction when prices begin to decline, or when the Bank of England begins to narrow her issues. It is obvious, too, that this system would exclude the possibility of any banking company, for the issue of small notes, being formed without its being possessed of considerable capital. Adventurers speculating on the funds of others, and sharpers, whose only object is to get themselves indebted to the public, would find, that banking was no longer a field on which they could advantageously enter. And while the public would be protected from loss, the business of banking would gain both in respectability and security; for it is next to impossible, that such a panic could ever be excited as would occasion any thing like a general or continued run on banks, who had given security for payment of their issues*."

It has been said, that this plan would be injurious, by locking up a portion of the capital of the banks; but this is plainly a mistake. It is to be remembered, that a bank, on every occasion when it issues notes in the regular course of business, receives a bill of exchange, or some other security in lieu of it, and therefore, that the *actual* capital on which a bank makes its

* Edinburgh Review, vol. xliii, page 274.

issues is the property which is deposited with it, either in the shape of bills of exchange, or of lodgments of money as mere deposits. The interest arising from the *original* capital of a bank forms no part of the regular profits of banking; and this capital should be considered, not as the *actual* security on which a bank issues its notes, but as a *collateral* security for them to the public. This capital is the pledge which the bank gives for the faithful discharge of the trust reposed in it; and without such a pledge, kept continually unimpaired, the public can have no security to indemnify it, in case the bank should issue notes for no permanent value received; as, for instance, for payment of private debts, or for articles of present consumption, or for carrying on some other trade.

When, therefore, a bank issues paper for value received in bills of exchange, &c., that value becomes the security on which the paper immediately rests. This value is continually coming in, in money, as the bills become due; the actual or paid-up capital, therefore, of the bank, is, properly speaking, only a subsidiary capital; and it cannot fetter, in consequence, the fair operations of a bank to require it to vest such a portion of it, by way of security, as shall be equal to the amount of the paper it issues. The capital so vested, it should be remembered,

would not be unproductive, as the bank would receive upon it the same interest that the public funds would yield.

Bankers of respectability should be amongst the first to approve of this plan of requiring security; because it would be impossible for weak banks to exist and to interfere with them, as they now do, not only by filling a large portion of the circulation with their paper, but by contributing to panics, and to producing runs upon the most solvent establishments.

Upon the whole, the measures which seem to be indispensably necessary for establishing a sound system of banking in England are, 1. The repealing of the regulation of the law, which imposes the restriction, by which more than six persons are prevented from joining in a banking company in London for issuing bank notes. 2. The reducing of the capital of the Bank of England, so that companies may be established, with the power of entering into competition with it. 3. The requiring of every bank to give security to the full amount of the notes which it issues. 4. The repealing of the law which prohibits the issuing of notes under the value of 5*l*. If these measures were adopted, then there would be a perfect currency; it would be cheap, secure, and not susceptible of sudden variations in its amount. All ground

for panics would be removed, and whenever periods of commercial distress should occur, in place of the banks failing by forties and fifties, they would be able to lend their assistance in carrying trade through its difficulties.

If, after all that has happened, his Majesty's Ministers and Parliament should determine to leave the banking system of England as it now is, without making any further effort to reform it, so sure as trade shall again become very prosperous, results will follow exactly similar to those under which the country has recently suffered. Let any one, who doubts this, only consider by what motives the Bank of England is necessarily governed. The Directors may be as honest and upright men as every one is ready to believe that they are; but they cannot avoid feeling, from their situation as the representatives of the proprietors of bank stock, that it is their first duty to protect their constituents from a loss of property, by doing all in their power to prevent any diminution in the established rate of dividend on bank stock. The proprietors of bank stock have no other object, when they purchase it, than to make the most of their money: and when they elect directors, they choose those persons whom they believe will best promote this object. Whenever, therefore, such a state of trade shall

* Report, p. 4.

again arrive, as that which existed in the beginning of 1824, is it consistent with common sense to suppose, that the Bank Directors would withstand the temptation of making a large profit by discounting extensively, and other means of increasing the issues of their paper? Would they throw away the opportunity of making good their dividend of eight per cent. on being told that the appearance of prosperity was delusive, and that sound principles required that a disposition to place confidence in it ought to be checked? No one can expect they would do any such thing. They would assuredly enlarge their issues, and thus do all that lay in their way to promote speculation and over-trading. And if they did, in what part of the banking system do the means exist of controlling them, and of protecting the public from their imprudence? Surely, to leave matters in such a state, and to suffer the country to be exposed to an evil of this magnitude, is quite inconsistent with the right course of conduct of any wise Government.

In regard to the country banks, if nothing be done to get rid of those, which are now in no small number issuing paper without possessing a sufficient capital, and to prevent weak banks from being opened, when a revived state of trade shall encourage speculation, the same results will take place as of late occurred in regard to forcing

paper into circulation and final bankruptcies. It is not possible for any one, who may be disposed to deny the accuracy of this statement, to show in what part of the banking system there is any means of protecting the public from this evil.

If it shall so happen, that the Bank of England shall remain as it now is, that joint stock companies shall not be allowed to be established in London, and that banks shall not be required to give security, some future writer may have to relate, that the low prices of 1826 produced a diminished supply of goods in proportion to the demand, and restored prices. That a series of favourable circumstances in 1827 and 1828 established very high prices, and that a general and extravagant spirit of speculation and over-trading was the consequence. He will then have to state, that in place of the Bank of England and the country banks checking that spirit, they greatly fomented, fostered, and encouraged it; that after speculation and over-trading had been thus extended to their utmost limits, the Bank of England suddenly contracted its paper to a great amount, that the country banks stopped payment in all directions, and that the whole nation was again involved in a general state of commercial distress and ruin.

SECTION XI.

The Scotch System of Banking.

THE following are the leading facts belonging to the system of banking in Scotland. No gold coin has been in the circulation for the last fifty years. The banks have constantly used every means in their power to keep the largest possible quantity of paper in the circulation. There have been no panics, as in England. The whole loss sustained by the public by bank failures from the first introduction of paper is thirty-six thousand three hundred and forty-four pounds.

The effect of this system has been most beneficial to Scotland. Adam Smith says, that "the trade and industry of Scotland have increased very considerably, and that the banks have contributed a good deal to this increase, cannot be doubted*.

Sir James Stuart observes, in his *Principles of Political Economy*, that it is "to the banks of Scotland the improvement of that country is entirely owing;" and "that all commercial coun-

* Vol. i, p. 443.

tries, by imitating them, will reap advantages of which they are at present deprived *."

The late Sir William Pulteney, than whom there was no one more capable of forming an accurate opinion on the subject, said, in his speech in 1797, on the Bank Restriction Bill, that the remarkable progress which Scotland had made in her commerce, manufactures, agriculture, and fisheries, was to be attributed to her banking system.

The following is an extract from the evidence, given before the committee on Scotch banking, of the last session, by Mr. Kirkman Finlay:—

Question. "Do you think that the facilities afforded by the banks have conduced mainly to the prosperity of Scotland?—*Answer.* I think that is one of the ingredients, and perhaps I should say the principal ingredient of the prosperity of the country †."

The case of Scotch banking is perhaps the most perfect and satisfactory illustration of the principles of a science that has ever existed. It leaves nothing to be desired in order to establish, beyond the possibility of dispute, the conclusion, that, if bankers are restrained from issuing notes for less than twenty shillings, and are sub-

* Vol. ii, p. 358.

† House of Commons' Report, 1826, p. 30. See Mr. Joplin's pamphlet on Scotch Banking, fifth edition.

jected to the obligation of an immediate and unconditional payment of their notes; as soon as presented, the trade of banking may, with safety to the public, be rendered in all other respects free.

The following extracts, which will now be given in this section from the Report on Scotch banking, will explain the manner in which this principle of free trade has operated:

“ The first notice of banking in Scotland, which occurs in the Statute Book, is an Act of King William the Third, passed in the year 1695, under which the Bank of Scotland was established. By this act an exclusive privilege of banking was conferred upon that bank; it being provided, ‘ that for the period of twenty-one years, from the 17th July 1695, it should not be lawful for any other persons to set up a distinct company of bank within the kingdom of Scotland, besides those persons in whose favour this act is granted.’ No renewal of the exclusive privilege took place after the expiration of the twenty-one years.

“ The Bank of Scotland first issued notes of twenty shillings in the year 1704; but the amount of notes in circulation previously to the Union was very limited.

“ The Bank of Scotland continued the only bank from the date of its establishment in 1695 to the year 1727.

“ In that year a charter of incorporation was granted to certain individuals named therein, for carrying on the business of banking, under the name of the Royal Bank; and subsequent charters were granted to this establish-

ment, enlarging its capital, which now amounts to one million and a half.

“ An act passed in the year 1765 is the first and most important act of the legislature, which regulates the issue of promissory notes in Scotland.

“ It appears from its preamble, that a practice had prevailed in Scotland of issuing notes which circulated as specie, and which were made payable to the bearer on demand, or payable, at the option of the issuer, at the end of six months, with a sum equal to the legal interest from the demand to that time.

“ The act of 1765 prohibits the issue of notes, in which such an option as that before-mentioned is reserved to the issuer. It requires that all notes of the nature of a bank-note, and circulating like specie, should be paid on demand; and prohibits the issue of any promissory note of a sum less than twenty shillings*.”

According to the evidence of Mr. Kinnear, a Director of the Bank of Scotland, the existing system did not take root till the monopoly of the Bank of Scotland was put an end to, and the Royal Bank established †. The Bank of Scotland was supposed to have favoured the Jacobites in 1715, and this induced the Government to promote the establishing of the Royal Bank ‡.

* Report, Committee, House of Commons, 1826, p. 3.

† Evidence, p. 137.

‡ Speech of Sir William Pulteney, Hansard's Parliamentary History, 1797, vol. xxxiii, p. 378.

The following account of the banks at present in Scotland is taken from the Report :

“ There are at present thirty-two banks in Scotland, three of which are incorporated by act of parliament, or by royal charter, *viz.* — The Bank of Scotland, the Royal Bank of Scotland, and the bank called the British Linen Company.

“ The National Bank of Scotland has 1,238 partners.

“ The Commercial Bank of Scotland has 521.

“ The Aberdeen Town and County Bank has 446.

“ Of the remaining banks there are three in which the number of partners exceeds 100 ; six in which the number is between 20 and 100 ; and seventeen in which the number falls short of 20.

“ The greater part of the Scotch banks have branches in connection with the principal establishment, each branch managed by an agent acting under the immediate directions of his employers, and giving security to them for his conduct.

“ The Bank of Scotland had, at the date of the last return received by your committee, sixteen branches, established at various periods between the years 1774 and the present.

“ The British Linen Company had twenty-seven branches.

“ The Commercial Banking Company in Edinburgh, thirty-one.

“ The total number of branches established in various parts of Scotland, from the Southern Border to Thurso,

the most northerly point at which a branch bank exists, is one hundred and thirty-three*.”

The evidence which was taken before the Committee of the House of Commons, on Irish Exchanges, in 1804, and before the Committee of the last Session, shows, that the over-issuing of paper, and the depreciation of its value in Scotland, are prevented by the practice, that all the banks adopt, of exchanging each other's notes twice a week, and paying the balances of the exchanges with bills, at ten days' sight, on London.

The origin of this practice of the banks drawing bills on London at a fixed date, and at par, is described by Mr. Mansfield, in the evidence he gave in 1804 to the Committee on Irish Exchanges. Mr. Mansfield states, that for a considerable period, previous to 1770, paper was in circulation to a greater extent than the nature of the trade of the country required, in consequence of the imprudent credits that had been given by the banks, and by their agents : that this excess of paper was the cause of an exchange of five to six per cent. against Scotland : that the banks at that time gave bills on London according to what they understood to be the existing rate of exchange : that, with a view to bring the exchange to par, the two chartered banks collected as

* Report, House of Commons, &c. p. 5.

much funds of their own as they could, to bring to London, which were lodged partly in the Bank of England, and partly with their own bankers. That these two banks then began to reduce the rate of exchange gradually, by drawing at one-half per cent. and one per cent. less on London than the market rate, and so going on until they reduced the exchange to a fixed charge only for interest and commission : that in consequence of an understanding between the two chartered banks, to support each other in acting upon this plan, the other banks were obliged to follow, in making this change in the system of drawing. Mr. Mansfield further states, what is of extreme importance, and what in fact alone enabled the two chartered banks to succeed in their scheme, that the chartered banks, at the time they adopted it, considerably curtailed the issues of their notes.

The plan, Mr. Mansfield says, was so successful as to bring down the exchanges to par in the course of about two or three years, in which state, he adds, "it has remained ever since*." A bill at forty days' date was at that time considered a bill at par, this being a rate of drawing, which allowed one-half per cent. for commission. The rate is now at twenty days in ordinary transac-

* Report, House of Commons, Committee on Irish Exchanges, 1804, pp. 33, 53, 55.

tions, and at ten days between one bank and another.

This practice of drawing on London, by the banks, for the purpose of paying to each other twice a week the balances of the exchanges of their notes, has kept the value of bank paper in Scotland from ever becoming of less value than the current money of London. While that consisted wholly of paper, the Scotch paper fell in value with it: and now that it consists of paper convertible into gold, the Scotch paper is of equal value with gold, because every banker can obtain gold for the bills he receives in exchanging the notes of another banker, if he chooses to require it. It is in this way that the paper money of Scotland maintains the value of gold, although no gold exists in the circulation.

That the necessary result of the practice of the banks giving bills on London at ten days' sight, in payment to each other of their balances, is to keep the quantity of Scotch paper within due bounds, a moment's consideration is sufficient to make evident. Because, if the banks in Scotland were to issue more paper than the circulation required, a depreciation of its value would be the inevitable consequence; this would render it of less value than the current money of London, and it would be immediately carried to the banks for bills on

London, in order to secure the obvious profit that would attend the transaction : the consequence of this would be, that the banks would sustain a loss in maintaining funds in London to meet the continual drain that would take place of them by drawing at par, while the value of the Scotch currency was less than the value of the London currency.

As this practice of the banks, of drawing at par on London, originated in an arrangement made between two of them, it may be supposed, that it might easily be set aside, and the existing Scotch system of banking broken up by banks being established, who would not conform to it. But as this practice has completely succeeded, and as it relieves the banks from the necessity of holding large dead stocks of gold, it is so decidedly the interest of the existing banks to maintain it, that they would not fail to exercise the power they possess, by combining together, of driving out of the trade of banking, any bank that would not conform to the rule. Besides, it is not probable that the public would ever act so absurdly, as to take the paper of any bank, that relieved itself from the control of the obligation to pay its notes with bills at par on London.

As the practice of the banks of drawing bills at ten days' date on London is the final regulator

of the value of paper in Scotland, their practice of exchanging notes with each other is the immediate regulator of the issues of them.

This latter is a practice not so much the result of arrangement among themselves, as of necessity ; because, as it has been explained in the Section on Paper Money, as every bank, in the course of its business, receives the paper of other banks, and as it would lose the opportunity of issuing its own notes, if it re-issued those notes so received, it follows, that they must be sent in to the bank which has issued them, and thus produce a system of exchanges.

The following extracts from the evidence taken by the Committee of the House of Commons, in the last session, explain the nature and effects of this system of exchanges :—

Evidence of J. G. Craig, Esq., Writer to the Signet.*—“ What is the ordinary check that subsists against over issues?—All the banks of Scotland have agents at Edinburgh, who exchange their notes twice a week, Monday and Friday ; there is a sort of general calling in of the notes on those days, and the balances paid by short dated bills in London. I know that the state of those balances is looked at by the banks, with the utmost jealousy and attention ; and I cannot doubt, that, if any thing in any degree wrong, were to

* The writers to the Signet are the chief money agents in Scotland.

appear in the course of those exchanges, the banks themselves would instantly correct it, and force a bank acting improperly to alter its mode of conduct.

“Do you mean, that, if the other banks discovered an attempt at an over-issuing of notes on the part of one of the banks, they would endeavour to correct that?—They certainly would, for their own safety, as well as for the public good.

“Do you think *that* a sufficient check against the possibility of over-issue by any particular bank?—I think no particular bank can over-issue.

“Do you think, that, if all the banks were to combine, they could by any means force more notes permanently into circulation than the transactions of the country required?—I think it quite impossible: the notes that were not required for the use of the country, would instantly be returned into the banks.”—P. 269.

Mr. Alexander Blair, of the British Linen Company, says, “In consequence of the exchanges, any notes which have been issued over and above what the circulation of the country necessarily would absorb, are immediately returned on the bank so issuing them; and he is obliged to give his bill on London, which is paid with real funds there.”—“I conceive it quite impossible, that any over-circulation can take place.”—“The check which exists on the undue issue of notes is the knowledge the bank must have, that such a proceeding would operate to its own disadvantage, and against the check of the exchanges.”—“I conceive it is impossible there should be an over-issue of our notes, under the system of exchanges which exists at present.”—“If the notes issued by a bank are over and above the amount the

country could absorb in circulation, they would be necessarily paid in to one of the other banks, and they would bring them against the banker who issued them, and he would be obliged to pay them by a bill on London, which would be equivalent to his having paid gold to the person to whom he advanced the notes."—P. 48.

Mr. Kirkman Finlay says, "If a bank at Glasgow were to issue more notes than the circulation could absorb, than the wants of the country required, the consequence would be, a balance of notes against that particular bank, in the hands of all the other banks, and a draw upon that account in Edinburgh; the agent there would be obliged to pay whatever balance arose there, in a bill at ten days' date on London."—"It is disadvantageous to the banks to issue more than, in the opinion of those who manage, will really remain out, and are wanted for the circulation."

"As each bank is directly interested in issuing as much paper as it can, when there is a very active spirit of speculation, might there not be for a time a considerable over-issue of notes from the whole banks together?"—"I think it quite impossible there could be an over-issue of notes, because the universal practice at Glasgow is to pay into the bank, with which the individual transacts his business, the whole of the notes he has in his possession, or nearly the whole, every day. The consequence is, if all the banks were to attempt to issue a larger amount of notes than the demands of the country required, all these notes would find their way into some bank or other, and then would meet in a very few days, perhaps in a few hours, at the Exchange."—P. 59.

Mr. Robert Paul, Secretary to the Commercial Bank of Scotland. — “What do you think is the guard against an over-issue of notes by the Scotch banks? — I think the system of exchanges that is established in Scotland is the most complete check upon over-circulation in that country.

“If all the banks could be supposed to combine, so that they should all over-issue; would not that over-issue be in the same way corrected, by being returned into the coffers of each bank by the neighbouring banks, that held such over-issues? — Yes; but that is an extreme supposition.

“But under that extreme supposition, would not there still be a correction afforded to an over-issue? — Certainly.” — P. 213.

Mr. Thomas Kinnear. — “Is not the active check on an over-issue, the established practice of drawing at par on London? — Virtually the active check, or I should say the actual check, which prevents, in the notes issued by the bankers in Scotland, any excess over the circulation fairly demanded by the country, is, that twice a week a banker must pay the notes presented to him at the exchanges, in the currency of London; and the cash credit system throws into the exchanges all the spare currency of the few last days preceding.” — P. 130.

The foregoing evidence affords an explanation, which is in every respect completely satisfactory, of the control which is successfully operative in Scotland, in preventing too great emissions of paper: and the following evidence shows, that the existing system runs no risk

of being injured, or eventually broken down, by the opening of weaker banks.

Evidence of Mr. Roger Ayton, Manager of the Renfrewshire Banking Company. — “What security do you feel exists in Scotland against the establishing of a weaker description of banks, and thereby destroying the character of the present system, with regard to its solvency and security? — If weak banks were to be established, our exchanges are so powerful, and so frequent, they could not stand it: in every six weeks, and sometimes in a month, we return the whole amount of our notes in circulation.

“Would there be a disposition on the part of the existing banks to combine against such an attempt to introduce weaker banks? — If we found there was a weak bank we would not receive its notes. — P. 194.

The following extracts of the evidence, respecting panics and failures, establish beyond all question the accuracy of the opinion which has been so frequently stated, of the complete success of the Scotch system of banking.

Mr. Roger Ayton. — “Do the people of Scotland prefer bank notes to gold? — They do.

“Do you feel that the system of banking in Scotland is safe from those risks which occur in this country from panic? — I think it perfectly safe from panic; because every individual, that has money deposited in the bank, is made a partner in the profits of the bank, by receiving interest.

“ In point of fact, has there ever been a run upon the banks throughout Scotland? — I never knew one.” P. 194.

Mr. J. G. Craig. — “ Are you acquainted with any failures which have taken place among the banks in Scotland? — There have been only two failures in the banks in Scotland that I ever heard of; the one was that of the Stirling Merchant Banking Company, and the other was the Falkirk Union Bank. The loss to the public, upon the two banks (the former having paid fourteen shillings and ninepence in the pound, the latter ten shillings), will be 36,344*l*.” — P. 270.

Mr. A. Blair. — “ Do you think the system a secure one, in case of sudden panic? — I consider a sudden panic a most improbable thing in Scotland, from the great confidence that generally prevails in the establishments throughout that country.” — P. 50.

Mr. K. Finlay says — “ It is the knowledge men possess of the means of the Scotch banks, which creates that confidence, that puts aside all belief of the possibility of the existence of such a panic as has prevailed in this country.” — P. 68.

Mr. John Thompson. “ Did any dangerous run take place upon the banks in Scotland, in the year 1745? — I believe not.

“ Has any run at any time taken place, arising from a panic in England? — I believe at one time there was a run in Scotland between some of the banks: it was one bank running down another bank, I believe. In 1728 the Royal Bank made a run on the Bank of Scotland; and then there was after that a course of warfare between some Glasgow banks and some Aberdeen

banks ; but there has never been any thing like a panic among the people." — P. 167.

The foregoing evidence respecting exchanges, panics, and failures, serves to support the correctness of the reasoning contained in the Section on Paper Money, in favour of a free system of banking, and shows, that, if the trade is free, the principles of private interest and competition will, in their operation, provide complete protection for the public against the depreciation of paper money and insolvent banks.

What the practical benefits are which Scotland has derived from paper money is fully explained in the evidence that relates to cash credits, and the payment of interest on deposits.

Mr. A. Blair. — "What is the system with respect to cash credit? — If a person wishes to have a cash credit with our company, he proposes two securities; and upon those securities being named, and being satisfactory to the Directors, a credit is given: those credits generally run from 200*l.* to 500*l.*, but they sometimes go as far as 1000*l.*, and in some cases beyond that; and sometimes as low as 50*l.* — P. 41.

"Have you any reference to the manner in which the money is to be employed? — We have reference to the manner in which it is to be employed, so far as regards the useful circulation of our notes. If we found a person, whom we considered a speculator or adventurer, was applying for a cash credit, we should not be willing to give him accommodation." — P. 49.

Mr. T. Kinnear. — “ The explanation of the cash credit system is this : — the bank, which first opened a cash credit, opened it with an individual shopkeeper ; he received for his goods in the currency of the country. Previous to that system he used to put his currency into his drawer — ten or twenty pounds, whatever it was ; but after the banker explained to him what he wished him to do, when the shopkeeper received the currency of the country, instead of putting it into his till, he looked to the banker’s shop as his till ; he sent to the banker, and took from it what he required, the banker giving him his own notes.” P. 116. — “ If a tradesman were to deceive a banker, by pretending that he wanted a cash account, while, in fact, he only wished the loan of a sum of money, without transactions, the consequence must necessarily be, that he would very soon draw out the whole amount, and he would not repay it at all ; it would remain for weeks or months as a dead loan : the banker has only to look at his own progressive ledger to see that this is the case, and he immediately says, This is not a cash account, you must pay up.” — P. 117.

“ Is there any inquiry made by the banker for what purpose the cash credit is to be used, before it is granted ? — Yes ; and those accounts are pretty much conducted on a point of honour. There are many things a man might legally do, that if he did, we should not deal with him ; and therefore it is natural to us to inquire minutely, not only into his general character, but into the manner of his trade.

“ Have the banks had many bad debts in consequence of cash credits ? — I literally hardly ever heard of a bad

debt by a cash account. The bank of Scotland, I am sure, has lost hardly any thing in an amount of receipts and payments of hundreds of millions: they may have lost a few hundred pounds in a century.

“Is it customary for the friends of a young man, establishing himself in business, to come forward to offer themselves as securities for him?—Yes.

“Have you known of instances of those persons interfering, if the individual was not employing the credit to the legitimate purpose of his trade?—I have known of instances: and I know that it is common for one of those securities, seeing symptoms of what he thought wildness or imprudence in the party, to go to him, and tell him he would withdraw his name from his cash account bond, if that course of conduct was continued. This affords a great moral check on the conduct of those persons.”—P. 125.

Mr. Hugh Watt says—Cash credits are granted to small farmers, who require assistance in stocking their farms, or who carry on a small cattle trade. They are granted to shopkeepers principally commencing business, such as drapers or haberdashers, or to tradesmen generally.—P. 189.

Mr. Robert Paul.—“What are the facilities that exist in obtaining a cash credit, compared with those of obtaining an ordinary loan?—When a person applies for a cash account, which is not an immediate advance of money on the part of the banks, but a conferring of the power or principle of drawing upon the bank to the extent specified, the person proposes two or more securities; a bond is made out, and he draws as occasion requires: in this way he has never more from the bank

than is absolutely necessary for the purposes of his business. The account is never recalled, unless it has ceased to be beneficial to the banker, by having been but little operated upon, and they not having promoted the circulation of the banker's notes. Whenever it becomes a dead advance, the banker calls it up. In the case of a person obtaining a loan, he would probably, in the first place, have to pay the interest down at once: he would have to pay it on the whole sum, whether he should require it ultimately or not, and it would be liable to be recalled by the lender at his pleasure."

"What is the expense of a bond for a cash account? — It depends upon the sum. Upon a cash account for 500*l.*, the cost originally of the stamp is 4*l.*, and there is a charge of half-a-guinea per cent. for writing the bond." —P. 205.

"How often, in the course of a year, does a bank think a cash account, to be profitable to them, should be turned over? — I would say, that no cash account is at all well operated upon, unless, at the close of it in a year, the amount of the transactions on each side is, at the very least, five times the amount of the grant." — "If the operations upon the account become unfrequent, we first give the holder a hint; and when it becomes altogether stagnant, and continues so for any length of time, we intimate to him, that at a fixed period he must pay it up, unless he can begin again to render it operative and useful."

"How much do you think the amount of capital, that is thus rendered available to the productive industry of the country, by means of cash accounts, may be estimated at? — If we suppose the average of the cash

accounts to be 500*l.*, and that there are 12,000 of them, that makes six millions.

‘ Of that six millions, how much do you think is actually drawn out, at any one time, upon the average?— Upon the average two-thirds of it, four millions.” P. 211.

“ *Mr. J. G. Craig.*—“ Are there many legal proceedings on the cash credits?— No; I believe it is rarely known that the banks have lost on cash credits.” —P. 268.

Mr. J. Hadden says—“ I have known many instances of young men, who were starting in the world from low situations, of servants, who have conducted themselves well during the time they were apprentices, or farm servants even, who were able to procure an account from the bank, by means of some friends or acquaintances becoming their securities, that in the course of their business have raised themselves to situations, by becoming farmers of considerable extent, and manufacturers, in a way highly creditable to themselves, and beneficial to the country.”—P. 272.

The following evidence relates to the practice of the Scotch Banks of paying interest on deposits.

Mr. T. Kinnear.—“ All the banks of Scotland have considerable deposits?— I should think so.

“ Can you form any notion from your experience, and from the communications you have had with other bankers, of the amount of those deposits?—I think I may state the aggregate amount of the deposits, without fear of being far wrong, at the present time as exceeding ten millions, and not exceeding twenty-five millions; I should

say myself from twenty to twenty-one millions. They all bear interest (four per cent.) at the present time.

“ Do you know whether it is the practice for persons, who have small capitals in Scotland, to invest them in the public securities in London, or to deposit them with the banks in Scotland? — I believe almost universally to deposit them with a Scotch banker.

“ How low do you take deposits? — Generally the course of our bank, and I believe of every other, is to take deposits as low as 10*l.*; but I believe it is very rare indeed that a banker refuses four or five pounds: I know deposits have been brought into a bank as low as two pounds: if a labourer begins with saving two pounds, there is every probability it will soon increase.”
“ The rule is to allow interest on every thing.”—P. 124.

Mr. John Thompson. — “ What class of the community is it that makes the smaller deposits? — They are generally the labouring classes, in towns like Glasgow. In country places, like Perth or Aberdeen, it is from servants and fishermen, and just that class of the community who save from their earnings, in mere trifles, small sums, till they come to be a bank deposit. The system of banking in Scotland is just an extension of the provident bank system: half yearly or yearly, those depositors come to the bank, and add the savings of their labour, with the interest that has accrued upon the deposit from the preceding half year or year, to the principal; and in this way it goes on, without being at all reduced, accumulating till the depositor is able, either to buy or build a house, or till he is able to commence business as a master in the line in which he has hitherto been a servant; a great part of the depositors of the banks are

of that description, and a great part of the most thriving of our farmers and manufacturers have arisen from such beginnings."—"I believe this class of the community furnish one half of the whole deposits."—P. 159.

Mr. Robert Paul.—"Have you had any opportunities of witnessing the habits of the labouring classes of people in Scotland, and can you speak to the utility of their deposits to them?—I have had many opportunities, both professionally, and in various situations in which I have been placed, of observing the effect of these deposits; and I do think that the system of the Scotch banks, allowing the rate of interest which they have done upon those small deposits, has influenced very considerably the moral character and condition of the people of Scotland.

"What proportion do you think the small deposits bear to the whole amount of the deposits?—I should think fully one-half.

"I think the whole of the deposits may be taken at twenty millions. P. 202. — The deposit is seldom drawn out, until the depositor has to build a cottage or buy a house; or perhaps he may himself begin business, or set out his eldest son in the world; or, it may be, furnish a house for his daughter at her marriage. A deposit is often laid up for old age: and, in many instances, I have no doubt, has likewise been the means of enabling men in the humble classes of society to give their children what we, in Scotland, value above all the advantages of wealth—the benefit of an intellectual and religious education."—P. 203.

This evidence so fully explains the good effects of these cash credits, and of the practice of giving

a liberal rate of interest on deposits, upon the extension of industry, the accumulation of capital, and the encouraging of moral habits, that it is unnecessary to say any thing more respecting them as they regard these great national objects. Their influence, in serving as a check upon an excessive issue of paper, is not less salutary, because the charging of interest against every one who has a cash credit for the sum outstanding, and the allowing of interest to every one who has a balance in his favour, necessarily leads both parties to pay into the banks daily, every note which is not actually wanting for the subsequent day's business. This gives constant activity and an efficient operation to the exchanges of notes by the bankers, and places every banker in the situation of being exposed to receive back in the course of a few weeks, or even days, every note that he issues, and even to be called upon to pay it by a bill at par upon London.

SECTION X.

The Irish System of Banking.

IN no country, perhaps, has the issuing of paper money been carried to such an injurious excess as in Ireland. A national bank was established in 1783, with similar privileges to those of the Bank of England, in respect to the restriction of more than six partners in a bank; and the injury that Ireland has sustained from the repeated failure of banks, may be mainly attributed to this defective legislative regulation. Had the trade of banking been left as free in Ireland as it is in Scotland, the want of paper money that would have arisen with the progress of trade, would, in all probability, have been supplied by joint stock companies, supported with large capitals, and governed by wise and effectual rules.

In 1797, when the Bank of England suspended its payments, the same privilege was extended to Ireland, and after this period the issues of the Bank of Ireland were rapidly increased. In 1797, the amount of the notes of the Bank of Ireland in circulation, was 621,917*l.*, in 1810, 2,266,471*l.*, and in 1814, 2,986,999*l.*

These increased issues led to corresponding increased issues by the private banks, of which the number was fifty in the year 1804. The consequence of this increase of paper was a great depreciation of it; the price of bullion and guineas rose to ten per cent. above the mint price, and the exchange with London became as high as eighteen per cent., the par being $8\frac{1}{3}$. This unfavourable exchange was afterwards corrected; not by any reduction in the issues of the Bank of Ireland, but by the depreciation of the currency of England, which became as great as that of the Irish currency in the year 1810, when the exchange between London and Dublin settled again at about par.

The loss that Ireland has sustained by the failure of banks may be described in a few words.

It appears by the Report of the Committee on Irish Exchanges, in 1804, that there were at that time in Ireland fifty registered banks. Since that year, a great many more have been established, but the whole have failed one after the other, involving the country from time to time in immense distress, with the following exceptions: first, a few that withdrew from business; secondly, four banks in Dublin; thirdly, three at Belfast; and, lastly, one at Mallow: these eight banks, with the new provincial bank, and the bank of Ireland, are the only banks now existing in Ireland.

In 1821, in consequence of eleven banks having failed nearly at the same time, in the preceding year, in the South of Ireland, Government succeeded in making an arrangement with the Bank of Ireland, by which joint stock companies were allowed to be established at a distance of fifty miles (Irish) from Dublin, and the Bank was permitted to increase its capital 500,000*l*. The Act of 1 & 2 Geo. IV, cap. 72, was founded on this agreement.

But Ministers having omitted to repeal in this act various restrictions on the trade of banking, that had been imposed by 33 Geo. II, cap. 14, no new company was formed. In 1824, a party of merchants of Belfast, wishing to establish a joint stock company, petitioned Parliament for the repeal of this Act of Geo. II, and an act was accordingly passed in that session, for the repealing of some of the most objectionable restrictions of it (the 5 Geo. IV, cap. 73).

In consequence of this act, the Northern bank of Belfast was converted into a joint stock company, with a capital of half a million, and commenced business on the 1st of January, 1825. But the remaining restrictions of 33 Geo. II*,

* With respect to the repeal of the Irish Bankers' Act, 33 Geo. II, cap. 14, it is a question of public policy, unmixed with any matter relating to the Bank of Ireland. The entire Act, except sections 2, 3, 4, 15, is for the purpose of having

and certain provisions contained in the new acts of 1 and 2 Geo. III, and 5 Geo. IV, obstructed the progress of this company, and they found it necessary to apply to Government to remove

the estates of bankrupts, who may become insolvent or stop payment, vested in trustees for the benefit of their creditors : this may at first view appear calculated to prevent considerable expense in the settlement of the affairs of bankers, but the experience of above sixty years since the passing of this Act, proves that it has had directly a contrary effect ; few instances having occurred in all that time of a banker's estate, which was vested under that Act, being brought to a final settlement at all, and not one instance without most expensive litigation in the Court of Chancery, which in some instances has continued upwards of forty years without being determined. At the time this Act was passed, the Bankrupt Laws were not extended to Ireland, and on that account it probably originated, bankers are now specifically subject to the Bankrupt Laws, and also the Traders' Act, 47 Geo. III, cap. 72 ; there cannot, therefore, be any reason for continuing a law originally introduced from the want of other remedies, which have since been provided. One evil of having bankers subject to two sorts of law is, that a new point of litigation is created, and the creditors have generally disputed whether the estate shall be managed under the one or the other.

Section 2 makes void all conveyances by a banker, though made for full consideration, if not registered within a month, but does not prevent a banker from selling and receiving the purchase money of his estates ; it only imposes a penalty on the purchaser who may unwarily omit to register his deed, and so obstructs the facility of a banker obtaining money on the security of real estate, to meet his engagements.

Section 3 makes void all settlements made by a banker on his child or grandchild, though for valuable consideration,

them, and a bill was accordingly introduced, which would have repealed all the obnoxious clauses of the 33 Geo. II, had it not been so altered in the committee as to leave several of them in force. In 1825, the Provincial Bank of Ireland commenced business with a capital of two millions, and the Bank of Ireland have of late established branches in all the principal towns in Ireland.

The losses that have been sustained in Ireland by abusing the power of issuing paper have been so great, that much more is necessary to be done, by way of protecting the public from future loss, than the measure proposed last session by Ministers, of abolishing small notes, and the measure already adopted of allowing joint stock companies

but does not prevent a settlement on any other relation of a banker, or on any stranger.

Section 4 makes void any note or receipt for money given by a banker, which contains an engagement to pay interest; but instead of subjecting the banker to the penalty for a breach of this law, it holds out to him a premium to commit it, by subjecting the unwary creditor to the loss of the entire money; and legally enabling the banker to defraud the public.

Section 15 prohibits any officer entrusted with the receipt of public money or revenue from being a Banker or discounteer, which seems superfluous, when Government can at once dismiss the officer offending.

These sections remain unrepealed.

Observations on Act of 33 Geo. II, c. 14.

to be established in the interior of the country. As the main source of the evil consists in the interference of the law in creating a national bank with exclusive privileges, the first step that ought to be taken for introducing a good system into Ireland is the getting rid of such a bank, and opening the trade of banking in Dublin. The next measure should be, the requiring of each bank to give security for the amount of paper that it issued; for after the experience of the ignorance with which the Irish Banks have conducted their business, and the derangement of the natural course of the trade by the long existence of the Bank of Ireland, it would be unwise to calculate upon a sound system of banking speedily supplanting that which has been established.

If a system of banking of this kind was allowed by law, it is probable that it would become in all respects like the Scotch system. The banks would be obliged to establish the practice of regularly exchanging their notes, and of paying the balances in coin, or in bills of short date on London: such a practice, coupled with requiring security, would effectually prevent weak banks from being established; and would keep the currency, at all times, of equal value with that of London.

Under the circumstances in which Ireland is placed, nothing would so much contribute to

her rapid improvement in wealth as the introducing of the Scotch plan of cash credits, and of paying interest on deposits. By cash credits, the capital which now exists would be rendered more efficient, and the paying of interest on small deposits would lead to habits of economy, and to the more rapid accumulation of new capital.

The charter of the Bank of Ireland has still to run till the year 1838; but as the charter of the Bank of England expires in 1833, unless measures are taken for getting rid of that of the Bank of Ireland in 1833, each part of the United Kingdom will after that year have a separate system of banking. As nothing could be more pernicious or absurd than such a state of things, the getting rid of the Bank of Ireland charter before it reaches its natural termination is indispensably necessary; and that being the case, the present would be the best time for making an arrangement with the Bank for opening the trade at once, in order that as little delay as possible should take place in establishing in Ireland a sound system of currency.

THE END.

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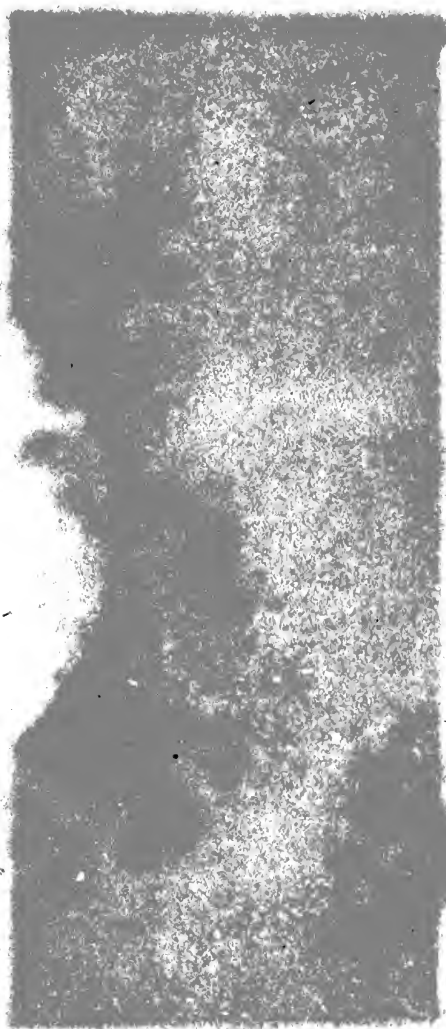
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